

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:

POSTAL RATE AND FEE CHANGES

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Docket NO.: R2006-1

VOLUME #31

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POSTAL RATE COMMISSION

In the Matter of:)
) Docket No.: R2006-1
POSTAL RATE AND FEE CHANGES)

Suite 200
Postal Rate Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume 31
Wednesday, November 8, 2006

The above-entitled matter came on for hearing pursuant to notice, at 9:35 a.m.

BEFORE :

HON. GEORGE A. OMAS, CHAIRW
HON. DAWN A. TISDALE, VICE-CHAIRMAN
HON. RUTH Y. GOLDWAY, COMMISSIONER
HON. TONY HAMMOND, COMMISSIONER
HON. MARK ACTON, COMMISSIONER

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C O N T E N T S

WITNESSES APPEARING:
 ROBERT W. MITCHELL
 HALSTEIN STRALBERG

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSE</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Robert W. Mitchell	10456	--	--	--	--
By Mr. Straus	--	10497	--	--	--
By Mr. Rubin	--	10523	--	--	--
By Mr. Bergin	--	10527	--	--	--
Halstein Stralberg	10530	--	--	--	--
By Mr. Straus	--	10613	--	--	--
By Mr. Bergin	--	10636	--	--	--
By Mr. Rubin	--	10669	--	--	--

C O N T E N T S

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Corrected designated written cross-examination of Robert W. Mitchell, TW-T-1	10460
Corrected designated written cross-examination Halstein Stralberg, TW-T-2	10534

E X H I B I T S

<u>EXHIBITS AND/OR TESTIMONY</u>	<u>IDENTIFIED</u>	<u>RECEIVED</u>
Corrected direct testimony of Robert W. Mitchell on behalf of Time Warner, Inc., TW-T-1	10456	10458
Corrected designated written cross-examination of Robert W. Mitchell, TW-T-1	10459	10459
Corrected direct testimony of Halstein Stralberg on behalf of Time Warner, Inc., TW-T-2	10530	10532
Corrected designated written cross-examination of Halstein Stralberg, TW-T-2	10533	10533

P R O C E E D I N G S

(9:35 a.m.)

CHAIRMAN OMAS: Good morning. Today is the final day of hearings to receive the direct case of participants other than the Postal Service in Docket No. R2006-1 considering the Postal Service's requests for rate and fee changes.

Before we proceed, does anyone have any procedural matters to discuss at this point?

(No response.)

CHAIRMAN OMAS: Scheduled to appear today are Witnesses Mitchell and Stralberg.

Our first witness is already under oath in this proceeding. Mr. Keegan, would you please identify yourself and the witness for the record?

MR. KEEGAN: Yes, Mr. Chairman. Timothy Keegan representing Time Warner, inc. Time Warner calls Robert W. Mitchell.

Whereupon,

ROBERT W. MITCHELL

having been previously duly sworn, was recalled as a witness herein and was examined and testified further as follows:

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1 DIRECT EXAMINATION

2 (The document referred to was
3 marked for identification as
4 Exhibit No. TW-T-1.)

5 BY MR. KEEGAN:

6 Q Mr. Mitchell, do you have before you two
7 copies of a document entitled Direct Testimony of
8 Robert W. Mitchell on Behalf of Time Warner, Inc.
9 Concerning Periodicals Rates and marked for
10 identification as TW-T-1?

11 A Yes, I do.

12 Q And was that testimony prepared by *you* or
13 under your supervision?

14 A Yes, it was.

15 Q Are there any changes or corrections to the
16 testimony as it was originally filed?

17 A Just so the record has it all in one place,
18 I will review the changes briefly.

19 We filed it originally on September 6. On
20 September 8, we made two small changes. Those changes
21 are in this copy, and the upper right-hand corner of
22 the two pages has the date of the revision.

23 On November 3, we filed a final version of
24 the testimony with three additional changes, and those
25 changes are also in this copy. The upper right-hand

1 corner has the revision date on the page.

2 The three changes that we made on November 3
3 are on page 1 we added a supplementary statement one
4 paragraph long relating to my response to POIR 18.

5 On page 13, footnote 11, line 6 of that
6 footnote, we changed the word "S-E-Y" to the word
7 "S-E-T". It was a typographical error that I made.

8 The third adjustment that I made is on page
9 15, line 22. We changed the word "that", T-H-A-T. to
10 the word "than", T-H-A-N, which was another
11 typographical error that I made.

12 That is the sum of the changes since the
13 original filing on September 6.

14 Q And with those changes would your testimony
15 be the same today if you were giving it orally?

16 A Yes.

17 Q Are there any library references associated
18 with your testimony that you're the sponsor of?

19 A TW Library Reference 1 contained my
20 workpapers, which was filed on September 6.

21 Also, we filed TW Library Reference 5 with
22 my response to POIR No. 18, so I adopt that library
23 reference as well. It contained a workpaper in the
24 form of a spreadsheet which replaced my original
25 submission.

1 MR. KEEGAN: Mr. Chairman, I move that
2 TW-T-1 and TW-LR-1 and TW-LR-5 be admitted into
3 evidence.

4 CHAIRMAN OMAS: Is there any objection?
5 (No response.)

6 CHAIRMAN OMAS: Hearing none, Mr. Keegan,
7 would you please provide the reporter with two copies
8 of the corrected direct testimony of Robert W.
9 Mitchell?

10 That testimony is received into evidence.
11 However, as is our practice, it will not be
12 transcribed.

13 (The document referred to,
14 previously identified as
15 Exhibit No. TW-T-1, was
16 received in evidence.)

17 CHAIRMAN OMAS: Mr. Mitchell, have you had
18 an opportunity to examine the packet of designated
19 written cross-examination that was made available to
20 you in the hearing room this morning?

21 THE WITNESS: Yes, I have.

22 CHAIRMAN OMAS: If the questions contained
23 in that packet were posed to you orally today, would
24 your answers be the same as those you previously
25 provided in writing?

1 THE WITNESS: Yes, they would.

2 CHAIRMAN OMAS: Are there any additions or
3 corrections you would like to make to those answers?

4 THE WITNESS: No.

5 CHAIRMAN OMAS: Mr. Keegan, would you please
6 provide two copies of the corrected designated written
7 cross-examination of Witness Mitchell to the reporter?

8 That material is received into evidence and
9 is to be transcribed into the record.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. TW-T-1 and was
13 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

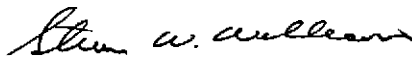
Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF TIME WARNER INC.
WITNESS ROBERT W. MITCHELL
(TW-T-1)

<u>Party</u>	<u>Interrogatories</u>
American Business Media	ABM/TW-T1-1, 3-6, 10-12 MH/TW-T1-3-4, 6, 9-11
Magazine Publishers of America, Inc. and Alliance of Nonprofit	USPS/TW-T1-1
McGraw-Hill Companies. Inc., The	MH/TW-T1-1-4, 7 11
Postal Rate Commission	ABM/TW-T1-1-6, 10-12 MH/TW-T1-1-11 PRC/TW-POIR No.18 - Qa (part 1 of 2) and b redirected to T1 USPS/TW-T1-1-2
United States Postal Service	ABM/TW-T1-2 MHKW-T1-1, 5, 7

Respectfully
submitted,


Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
TIME WARNER INC.
WITNESS ROBERT W. MITCHELL (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

ABM/TW-T1-1	ABM, PRC
ABM/TW-T1-2	PRC, USPS
ABM/TW-T1-3	ABM, PRC
ABM/TW-T1-4	ABM, PRC
ABMITW-TI-5	ABM, PRC
ABM/TW-T1-6	ABM, PRC
ABM/TW-T1-10	ABM, PRC
ABM/TW-T1-11	ABM, PRC
ABM/TW-T1-12	ABM, PRC
MH/TW-T1-1	McGraw-Hill, PRC, USPS
MH/TW-T1-2	McGraw-Hill, PRC
MHITW-TI-3	ABM, McGraw-Hill, PRC
MHITW-TI-4	ABM, McGraw-Hill, PRC
MHITW-TI-5	PRC, USPS
MH/TW-T1-6	ABM, PRC
MHITW-TI-7	McGraw-Hill, PRC, USPS
MH/TW-T1-8	PRC
MHITW-T1-9	ABM, PRC
MHITW-TI-10	ABM, PRC
MH/TW-T1-11	ABM, McGraw-Hill, PRC
PRCITW-POIR No.18 - Qa (part 1 of 2) redirected to T I	PRC
PRCTTW-POIR No.18 - Qb redirected to T I	PRC
USPSITW-TI-1	MPNANM, PRC
USPS/TW-T1-2	PRC

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

ABM/TW-T1-1. At page 21, you discuss co-palletizing and the costs of co-palletizing. With respect to this testimony, please respond to the following questions?

- (a) Please identify the employees of printing companies, and the names of those companies, with whom you have discussed the availability or cost of co-mailing or co-palletizing since the filing of your direct testimony in Docket No. C2004-1.
- (b) Please provide all notes of such conversations, e-mails or other written communications with respect to those conversations and data produced to you or by you related to those conversations (that is, data related to the costs to printers or prices to mailers of co-palletizing or co-mailing).
- (c) With respect to the statement (at page 21, line 8) that the costs of co-palletizing "have not been found low," does the same hold true for co-mailing?
- (d) In general, are the costs of the printer that are passed on to the mailer higher or lower for co-mailing or for co-palletizing, and why?
- (e) Please provide your best estimate of the extent to which co-mailing produces pieces that would qualify for a carrier route discount.
- (f) Please provide your best estimate of the extent to which co-palletizing or co-mailing produces 5-digit pallets.

RESPONSE:

- (a) I may have talked to such employees at meetings, but I do not recall any specific conversations.
- (b) No notes of the kind you describe exist.
- (c) My statement is based on references I have heard or seen to the effect that much of the current postage reductions for co-palletization are being used to fund the activity and that the reductions in postage being received by mailers are rather small. For example, see Docket No. C2004-1, response of witness Cavnar to TW et al./ABM-T1-6, Tr. 6/1712. My statement does not factor in the possibility of improved service, reduced

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

bundle breakage, or any concomitant linkage to dropship activities. I do not believe the same holds true for co-mailing.

- (d) I do not have sufficient information on which to base an answer
- (e) Generally, bundles of co-mailed pieces could be 3-digit bundles, SCF bundles, 5-digit bundles, or carrier route bundles. I do not have sufficient information on which to base an estimate of the proportions of each
- (f) I do not have sufficient information on which to base an answer

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

ABM/TW-T1-2. At page 22, line 5, you state that the rates in this proposal "were moderated." Please:

- (a) describe from what they were moderated. and
- (b) identify each of the ways in which they were moderated and the differences between the moderated rates and the rates that would result absent such moderation.

RESPONSE:

- (a) In general, the bundle, sack, and pallet charges proposed are moderated from what they would have been if they were to reflect fully the costs caused by bundles, sacks, and pallets.
- (b) Principally, the bundle, sack, and pallet charges proposed are equal to 60 percent of the estimated costs of bundles, sacks, and pallets. Also, a weighted average was developed of the estimated costs of SCF, ADC, and BMC entry of sacks and pallets, separately, before the 60-percent proportion was applied.

Moderation is discussed further in my testimony, TW-T-1. *See especially* p. 23, l. 1 through p. 25, l. 25. Also to be noted is that the effects of changing the degree of moderation can be developed using my workpaper, WP-Mitchell-3F-06.xls. Go to sheet 'Inputs'. Changing the figure in cell D123 changes the passthrough on the bundle costs. Changing the figure in cell D148 changes the passthrough on the sack costs. Changing the figure in cell D177 changes the passthrough on the pallet costs. In addition, the passthrough for any selected cell or group of cells in the bundle, sack, and pallet charges may be adjusted by changing the proportions in cells C124 through C197, although it should be noted that these compound with the passthroughs selected in the corresponding

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

cells in column D. Withdrawing the averaging across origin entry points can be done by following the instruction in cell J146 and cell J175, for the sack costs or the pallet costs, respectively. The passthroughs relating to non-machinability can also be adjusted, by changing the center figures in the yellow boxes in the presort tree, in cells like G54. Any and all of these can be changed, one at a time or in groups, and the new rates will show on the 'Rates' sheet. Once alternative rates are obtained, differences between them and **the** rates I **propose** can be obtained by subtraction.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-I)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

ABM/TW-T1-3. You state (page 22, line 28) that your proposal "would continue all current recognition of editorial matter." Is it your testimony that the total benefit to all editorial matter in the system would be preserved, or that no individual Periodical mailer will see its editorial benefit reduced, compared with the present rate design?

RESPONSE:

Neither. In list form, page 22 introduces nine objectives, described as "disparate in character and not all of which can be transformed into a variable suitable for maximization." It says these objectives relate to the approach taken and are reflected in my proposal. (ll. 8-11) The eighth objective, on line 28, is: "To continue all current recognition of editorial matter." I met this objective with editorial benefits approximating those in the Postal Service proposal, which, in turn, are modified in structure from those in the current rates. Modifications in structure always cause the effects on individual publications to vary, depending on publication billing determinants.

RESPONSES **OF** TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES **OF** AMERICAN BUSINESS MEDIA

ABM/TW-T1-4. Please confirm that, if your rate design were changed to eliminate entry level discounts for editorial matter, and the same overall editorial benefit were to be offered, the editorial flat rate applicable to all editorial pounds would be lower than that proposed by Time Warner.

RESPONSE:

Confirmed for all of the rate designs that have been proposed in this docket

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

ABM/TW-T1-5. Please describe the types of publications that are not machinable.

RESPONSE:

The Postal Service defines machinability, and would continue to do so under the rates I propose. Under any particular definition. I have no way of describing "types of publications" that would not be machinable. In fact. it seems entirely possible that in any lexicon of types. some pieces of a type would be machinable and some not.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

ABM/TW-T1-6. You state (page 26, lines 6-7) that the "effects" of the rates you propose on "small mailers are limited." Please (a) confirm that your statement would be true if the effects were limited to increases below 100% and (b) explain in full both qualitatively and quantitatively what you meant by this statement.

RESPONSE:

- (a) Confirmed that "if the effects were limited to increases below 100%," the effects would, by definition, be limited
- (b) What I meant is as follows: (1) It became clear in the Time Warner et al. complaint case (Docket No. C2004-1) that some small mailers (particularly those sending heavy publications, high in editorial content, to the higher zones) would have received large rate increases due to the proposal to zone the editorial content, though some other small mailers would have received rate decreases for the same reason. These potential effects are not part of the current proposal. (2) It also became clear in Docket No. C2004-1 that the most common reason why some small publications would have received large rate increases was their use of sacks with only a few pieces in them. This has now been changed administratively, by the 24-piece rule. (3) Without these two effects, the range of increases in the Complaint case was not very wide. (4) In this case, in addition to the elimination of those two effects, the 60 percent passthrough on the bundle costs, sack costs, and pallet costs will result in the greatest attenuation for small mailers. (5) The revenue from the proposed charges for non-machinability and firm bundles is used to reduce all other Periodicals rates, including **those** for small mailers.

RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA

ABM/TW-T1-10. Since you filed your direct testimony in Docket No. C2004-1, have you studied, examined or inquired into whether or not there are types of publications, such as for example small weeklies, tabloids, very small circulation, etc., that at present cannot easily or at all be co-mailed or co-palletized? If so, what did you learn, and from whom?

RESPONSE:

No. However, we know that some weeklies are now being co-mailed. See for example Direct Testimony of Mark White, USNews-T-1. We also know that co-mailing and co-palletizing become less important as volume grows, because the degree of presortation can no longer be increased and pallets reach effective weights. Therefore, co-mailing and co-palletizing present their greatest potential for publications that are mid-size and smaller, with alternatives depending in many cases on the printers selected. And it should not be presumed that the types you refer to as "very small" are being left out. Many of the smallest publications are local and regional in nature. They are in many cases well positioned to take their mail to processing facilities with close ties to the mail's final destination, and it is not the case that efficiency would increase if a way were found to co-mail or co-palletize all of this mail. If bundle and sack makeup are selected in view of the costs involved, this mail, and even longer-distance mail, can be part of a low-cost mailstream.

RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA

ABM/TW-T1-11. Since you filed your direct testimony in Docket No. C2004-1, have you studied, examined or inquired into whether or not there are Periodical printers that are not equipped to, or do not have enough volume to, co-mail or co-palletize? If so, what did you learn. and from whom?

RESPONSE:

No

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA**

ABM/TW-T1-12. Do you believe that the incentives in the present rates to co-mail or co-palletize are adequate to encourage that activity? Why or why not?

RESPONSE:

Both the current rates and the ones proposed by the Postal Service are misaligned with costs.' Therefore, the incentives are inadequate. They would not be expected to result in an appropriate amount of dropshipping, containerizing, co-mailing, or co-palletizing. Additionally, they would not be expected to bring about the appropriate makeup of bundles and containers. Some level of combined Postal Service and mailer costs exists today that is much higher than it should be. That is, we know that combined costs can be lowered, with attendant increases in efficiency. The rates I propose are designed to move toward appropriate levels of these various mailer activities.

'Under current rates, for example, the Postal Service savings from a co-pallet is greater if the co-pallet is not dropshipped than if it is dropshipped, but the discount is allowed only if it is dropshipped. My testimony, on page 18, line 17 through page 21, line 3, provides examples of the degree of misalignment under the rates proposed by the Postal Service, with quantification.

Response to MHITW-TI-1
Page 1 of 1

RESPONSES ~~OF~~ TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF McGRAW-HILL

MH/TW-T1-1. With respect to your testimony at page 10 lines 4-11, please explain fully and specifically how the rates proposed by you in this case reflect a "piecemeal" approach, including in your answer (without limitation) a specification of any and all further rate design proposals for Periodicals mail that are presently contemplated by you and/or Time Warner for future rate and/or classification cases.

RESPONSE:

The rates I develop are piecemeal in ~~the~~ sense that a zoned editorial pound rate is not proposed and that costs are averaged over three origin points (DSCF, DADC, and DBMC). So far as I know, the only further step Contemplated by Time Warner or me is that it might be worthwhile to take the additional step of deaveraging the three origin points. The reasoning would ~~be~~ that mailers are in many cases well positioned to enter mail at a facility that would allow lower Postal Service costs, but have no incentive to do so.

RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-I)
TO INTERROGATORIES OF McGRAW-HILL

MH/TW-T1-2. With respect to your testimony at page 17 lines 18-20 that "[i]f the container rate were to cause mailers of 5-digit pallets to merge them into larger 3-digit pallets in order to reduce the container charges, it would be a step backwards":

(a) Please explain fully whether the USPS-proposed container charge would likely cause any substantial shift from 5-digit pallets to larger 3-digit pallets. in view of the fact that under that proposal. the average per-piece container charge for pallets would be only 0.052 cents, as confirmed by witness Tang in response to MH/USPST35-1(b).

(b) Please explain fully whether the container charges proposed by Time Warner in this case would be more likely to cause a shift from 5-digit pallets to larger 3-digit pallets.

(c) Would a mailer moving copies of Periodicals from 5-digit to 3-digit pallets likely face degraded service? Why or why not?

RESPONSE:

(a) I have no basis for estimating the number of 5-digit pallets that might be merged into 3-digit pallets. Qualitatively, the signal in the Postal Service proposal goes in the wrong direction in some cases. I believe signals that go in the wrong direction should be avoided, especially if how to do better is clearly understood.

(b) Under the rates I develop, for example, the charge for each 5-digit pallet entered at a DSCF is \$11.90. The bundles on these pallets are charged 1.2 cents each. If a shift is made to 3-digit pallets, the charge for each pallet becomes \$9.90. However, the associated charge for the bundles becomes 13.4 cents each. I have no basis for projecting how many of these shifts will be made or for comparing the likelihood of such shifts with the likelihood of similar shifts under the Postal Service proposal. What is important is that mailers contemplating shifts factor into

their decisions the change in the cost to the Postal Service of handling *both* the pallets and the bundles on the pallets. Sending balanced signals of this kind is much better than sending unbalanced signals that are not related to the costs involved.

(c) I do not know. If the Postal Service honors its standard operating procedures and the mailers honor the cut-off times, there should be no change in the service received.

RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF McGRAW-HILL

MH/TW-T1-3. With respect to your testimony at page 21 lines 7-10 that "the costs of co-palletizing have not been found low," but "will undoubtedly decline over time":

(a) Please provide any and all information available to you regarding the costs of co-palletization and the charges assessed therefor by printers and/or other parties.

(b) Please explain fully whether there ~~is~~ any **basis** for concluding that those charges will likely decline over time, particularly if a printer's co-palletization charges are based on a percentage of the postage saved through co-palletization

RESPONSE:

(a) I do not have specific information on "the charges assessed ... by printers and/or other parties." Please see my response to interrogatory ABM/TW-T1-1(c).

(b) With competition, I would expect printers' charges to ~~be~~ based their costs, not on the application of some proportion to the savings in postage. My expectation ~~is~~ that the printers' costs "will likely decline over time" due to normal learning effects and to innovative efforts.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-I)
TO INTERROGATORIES OF McGRAW-HILL**

MH/TW-T1-4. Please explain fully the basis for your statement at page 24 lines 13-14 of your testimony that "[m]any mailers have already made adjustments to achieve machinable status," and identify any and all such mailers and specify the adjustments made.

RESPONSE:

The basis for my statement is observations I have heard at mailer meetings (including MTAC) concerning machinability. A great deal of attention is paid to the content and interpretation of machinability standards and how pieces can be changed to meet them. I have no specific mailers in mind. The changes made range from changing size and weight to changing stiffness, cover stock, poly-wrap practices, address location and orientation, the use of tabs (most common on letter-size pieces), and more. Mailers work regularly with the Postal Service on such issues. It is not uncommon for mailers to provide pieces for testing.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF McGRAW-HILL**

MH/TW-T1-5. Please explain fully the basis for your statement at page 24 lines 13-16 that "adjustments to achieve machinable status . . . should not be a source of significant . . . disruption," assuming that the achieving **of** machinability would require a significant change in the weight andlor dimensions of a publication or otherwise.

RESPONSE:

Beginning on line 12 **of** the page you cite. my testimony says:

The time has come to recognize the additional costs of being non-machinable. Many mailers have already made adjustments to achieve machinable status and many others have opportunities to do so. Changes in this area are possible, and appropriate signals should be sent. This development has long been expected, and should not be a source of significant surprise or disruption.

The basis for my statement that the recognition of the additional costs of being non-machinable "has been long expected" is that such costs have been recognized in other subclasses, that machinability ~~has~~ been discussed widely at mailer meetings and between the Postal Service and mailers, and that the Commission has expressed considerable interest in such recognition. For example, see Order Addressing Complaint of Time Warner **et al.** (Order N. 1446). Docket No. C2004-1; p. 34, ¶ 4045:

Mailers should expect the Postal Service to develop additional machinability standards as technology evolves and additional automated equipment is deployed. The Postal Service therefore should look toward a rate structure that recognizes the machinability of Periodicals mail, along the lines suggested by Complainants.

The Commission also remarked that Periodicals is "the only traditional class in which machinability is not explicitly recognized in the current rate schedule." *Id.*, p.

33, ¶ 4040. Accordingly, I do not see how the recognition of non-machinability in rates could come as a surprise.

The basis for my statement that the recognition of non-machinability should not be a source of significant disruption is that it should have been anticipated and that there is nothing inherently disruptive about responding to a surcharge in a rate schedule. I did not say that it is not disruptive to make non-machinable pieces machinable, although the adjustments needed to achieve machinability are not always extensive. Mailers are not required to make their pieces machinable. Under the rate schedule I develop, mailers are free to consider the value they receive from sending non-machinable pieces and pay the surcharge. They cannot, however, elect to send non-machinable pieces and expect other mailers to pay the additional costs.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF McGRAW-HILL**

MH/TW-T1-6. Please explain fully the basis for your statement at page 24 lines 20-21 that "[m]any mailers have been investing in co-mailing capabilities." and identify any and all such mailers and investments, and provide any and all supporting documentation

RESPONSE:

The basis for my statement is my general awareness that co-mailing is a preparation activity that has received considerable attention for some time and that there are costs associated with it. Witness Cavnar has testified to the same general awareness: "..., I do know from American Business Media Postal Committee discussions and from general knowledge that the level of co-palletizing and co-mailing by American Business Media members has been increasing. probably substantially, in the past couple of years." ABM-T-I. p. 2, l. 23 to p. 3. l. 3.

I have no way of providing a list of mailers or printers that are co-mailing.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF MCGRAW-HILL**

MH/TW-T1-7. With respect to your testimony at page 24 lines 23-25, please explain fully the reasons why a separate rate is proposed for firm bundles, and why they may require handling different from the manner in which any other bundles are handled (except that firm bundles are not broken prior to delivery).

RESPONSE:

For equivalent handlings, the cost of handling a firm bundle is the same as the cost of handling a carrier-route bundle. Both must be routed to the carrier. In my rate schedule, the charges for firm bundles are somewhat different from the charges for carrier-route bundles because the costs on which my rates are based are averaged over 5-digit and carrier-route containers and over sacks and pallets, and the proportions of firm bundles that are in the various containers are different from the corresponding proportions for carrier-route bundles.

Response to MHITW-T1-8
Page 1 of 1

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF MCGRAW-HILL**

MH/TW-T1-8. With respect to the request in Presiding Officer's Information Request No. 19, page 3, that Time Warner "provide calculations of the percentage changes of ... [its] proposal[] on the 251 publications using . . . more recent data", please provide for each such publication (using the more recent data) the cents-per-piece postage cost (a) under the present rates. (b) under the Time Warner-proposed rates, and (c) under the USPS-proposed rates.

RESPONSE:

The requested information will be included in the response of Time Warner to POIR No. 19.

Response to MH/TW-T1-9
Page 1 of 1

**RESPONSES OF TIME W RNER WITNESS MITCHELL (TW-T-1)
TO INTERROG, FORIE OF McGRAW-HILL**

MH/TW-T1-9. Please explain the statement that "I do not believe the same holds true for co-mailing" at the end of your response to ABM/TW-T1-19(c). Are you saying that the costs of co-mailing are low? If so, please provide the information on which that statement is based.

RESPONSE:

I believe that you meant to refer to ABM/TW-T1-1(c). Just before saying that "I do not believe the same holds true for co-mailing." I state that I have heard or seen references "to the effect that much of the current postage reductions for co-palletization are being used to fund the activity and that the reductions being received by mailers are rather small." At that point I provide a reference to a report in Docket No. C2004-1 that one mailer was receiving a net savings of 1 percent. I consider 1 percent to be rather small. What does not hold true for co-mailing, I believe, is that the net savings are in the neighborhood of 1 percent.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF MCGRAW-HILL**

MH/TW-T1-10. In response to ABM/TW-T1-6, you make general statements in support of the assertion in your testimony that the effects of your proposal on small mailers are limited. Please explain whether and, if so, how you tested these hypotheses prior to the filing of your testimony.

RESPONSE:

The testing done prior to filing is described by witness Stralberg in his response to ABM/TW-T1-7 ("Due to a shortage of time, the only publications analyzed before the filing of Mitchell's testimony were the six Transworld publications, owned by Time Inc., and Time magazine").

My response to ABM/TW-T1-6 contains five numbered statements supporting my contention that the effects of my rates on small mailers are limited. None of the five is a hypothesis. The first three statements draw on considerable quantitative analysis presented in Docket No. C2004-1 and acknowledged by the Commission in Order No. 1446. The fourth statement relates to the 60-percent passthrough of the costs of bundles, sacks, and pallets. Because small mailers are understood to be heavy users of sacks, the result will be substantial attenuation for them. The fifth statement relates to the charges for non-machinability and firm bundles. It is true that small mailers would face these charges, if applicable, but it is also true that if small mailers send machinable pieces, they would see lower rates because of these charges.

An indication of the magnitudes involved in the new rate elements is shown in my workpapers, sheet 'tybr-4', column F. In particular, 2.57 percent of the revenue is obtained from ~~the~~ pallet charges, 4.48 percent *from* the ~~sack~~ charges, and 3.3 percent from the bundle charges. These proportions are not large. Furthermore.

since the costs behind these charges were averaged in the past and paid by all mailers, the proposal does nothing more than shift them in the direction of causation, **so** that a portion of them would be paid by the same mailers as pay them currently. In contrast, 54.6 percent of the revenue comes from the per-piece charges (before accounting for the per-piece editorial benefit) and 35.0 percent comes from the per-pound charges. Except **for** the charges for non-machinability, these charges reside in the same place that they do now. In short, considerable reason exists *for* a conclusion that the effects of these proposed new rate elements on small publications are limited.

Response to MHITW-TI-11
Page 1 of 1

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF McGRAW-HILL**

MH/TW-T1-11. Please refer to publication number 31 on Table ABM/TY-T1-8b, page 3 of 3. According to that table, publication 31 now pays 33.2 cents per copy, would pay 36.7 cents per copy under the Postal Service proposal, and would pay 51.9 cents per copy under your proposal, *an increase of 56%*. (a) What are the mailing characteristics of that publication that cause such a large increase under your rate proposal? (b) If one such characteristic is that the publication is mailed in sacks, please explain why it is not palletized, co-palletized or co-mailed.

RESPONSE:

Inquiry has shown that an error was made in estimating the rate increase for publication number 31. The correct increase is 24.3 percent. An erratum to the earlier response will be filed.

Mitchell (TW-T-1) Response to POIR No. 18
 Item a. part 1 of 2
 Page 1 of 1

**RESPONSE OF TIME WARNER WITNESS MITCHELL (TW-T-1) TO
 PRESIDING OFFICERS INFORMATION REQUEST NO. 18 a (part 1 of 2)**

QUESTION:

Please refer to Time Warner witness Mitchell's workpaper 'Wp Mitchell-3F-06.xls,' worksheet 'tybr-4.'

- a Please provide billing determinants and estimates of last year after-rates volumes and revenues *foreach* of the rate *categories* (existing and new) proposed Provide them *separately* for Regular Rate. Nonprofit. and Classroom Periodicals

RESPONSE:

- a. Time Warner Library Reference No. 5. TW-LR-5. contains two Excel files. File WP-Mitchell-5-06 is a replacement in its entirety *for* my original workpaper WP-Mitchell-3F-06 (contained in TW-LR-1), and file PieceVolumes(3) is a reference file containing piece, bundle, and container counts. In WP-Mitchell-5-06: sheet 'tybr-4' contains a full set of TYBR billing determinants for the Outside County subclass and the categories of Regular, Nonprofit, and Classroom; sheet 'Fcsi-2' shows the development of the *tyar/tybr* volume ratios; and sheet 'tyar-1' provides TYAR billing determinants and revenues for the Outside County subclass and the categories of Regular, Nonprofit, and Classroom. As in my original workpaper, sheet 'Rates' contains the rate schedule with the proposed rates. None of the proposed rates has changed.

**RESPONSE OF TIME WARNER WITNESS MITCHELL (TW-T-1) TO
PRESIDING OFFICERS INFORMATION REQUEST NO. 18 b**

- b. What rate does Time Warner propose for the current category basic nonautomation letters? Please describe in detail the proposal for each of the current letter categories.

RESPONSE:

- b. The proposed rates were developed on the assumption that non-automation letters are machinable and would therefore pay the rates for machinable periodicals that are not prebarcoded. This is consistent with the current classification scheme. The basis for the assumption of machinability is that there is little reason to assume that these letters are non-machinable and that only 30 percent of non-automation publications in general are non-machinable. If some non-automation letters are non-machinable, some additional revenue would be received. Except that the basic presort tier is disaggregated into mixed AADC and AADC, separate piece rates for *automation* letters are proposed just as in the current rate schedule.

In addition to the traditional piece and pound rates, letters would receive a container charge, just as in the Postal Service proposal, and would pay a bundle charge. The Postal Service might decide that a tray receives handling that is equivalent to that of a bundle.

The piece rates for automation letters were developed by relying primarily on the Postal Service proposal. Witness Tang shows a cost difference between basic non-automation flats and basic automation letters of 29.6 cents (equal to a letter-flat differential plus the savings

Mitchell Response to POIR No. 18
Item b
Page 2 of 2

due to automation compatibility) and proposes a passthrough of 35.3 percent, yielding a rate difference of 10.4 cents. To get the rate for automation letters at the mixed AADC level, I applied this difference to the rate for machinable flats at the corresponding level. Also, Tang proposes a discount for 5-digit automation letters, relative to 3-digit automation letters, of 6.4 cents, which I adopted. This leaves two discounts, AADC relative to mixed AADC, and 3-digit relative to AADC. Both of these involve the current basic level, which is proposed to be deaveraged. Making matters worse is that Tang (in cell F45 of her 'Discounts' sheet) erroneously calculated the cost avoidance for the 3-digit pieces as equal to a letter-flat differential at the basic level (which may be viewed as applicable) plus the difference between a 5-digit non-automation letter and a 3-digit automation letter (an irrelevant cost difference). I selected an ADC discount (relative to mixed AADC) of 3.8 cents and a 3-digit discount (relative to AADC) of 1.4 cents. The resulting rate for 5-digit automation letters is 19.1 cents, 1.3 cents below Tang's rate, consistent with a reduced role for piece rates.

**RESPONSES OF WITNESS MITCHELL (TW-T-1) TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/TW-T1-1.

Please refer to your testimony at pages 2-3, where you update a Docket No. C2004-1 comparison of the CPI-U to an index of Periodicals rates (at constant markup index).

- a. Please confirm that, in response to TW et al./USPS-RT2-7 in Docket No. C2004-1 (Tr. 6/2185-90), witness Tang presented the drawbacks of comparing the CPI-U index to your "index of Periodicals rates. at a constant markup index."
- b. Please refer to Postal Service witness Tang's response to TW et al./USPS-RT2-7. Do you agree that since 1985 significant structural changes have occurred in rate design and mail mixes? If not, please explain fully.
- c. Do you agree that since 1985, there have been large changes in worksharing opportunities and productivity investments? If not, please explain fully.
- d. Please refer to Postal Service witness Tang's response to TW et al./USPS-RT2-7, especially Tables 1, 2 and 3. How does a constant markup index recognize the significant structural changes that have occurred in Periodicals rate design and mail mixes, and the large changes in worksharing opportunities and productivity investments?
- e. When there have been large changes in relative costs within Periodicals rate categories, is it useful to examine other measures, such as unit contribution, as well as markup or cost coverage? If not, please explain fully.

RESPONSE:

- a. I agree that witness Tang responded to interrogatory TW et al./USPS-RT2-7 in Docket No. C2004-1, but, for the following reasons, I do not agree that what her response presented is properly characterized as "drawbacks" to my analysis.

(1) Tang's response states that her testimony on my CPIU comparison "point[ed] out that one way to look at the changes in Periodicals rates over the past two decades is to look at the price of an average Periodicals piece," by which she means the *postage* of an average Periodicals piece, which is commonly referred to as the average per-piece revenue (herein shortened to per-piece revenue). Her suggestion is fundamentally misguided. The ratio of revenue to an output measure like the number of pieces is not a rate and cannot be used to construct a rate index.¹ It is true that an increase (decrease) in rates would increase (decrease) the per-piece revenue, *ceteris paribus*. But there are other factors as well that affect the per-piece revenue, factors that have nothing to do with the average level of rates. That such factors might explain much of the behavior of the per-piece revenue is more than just a theoretical possibility: some of these other factors have changed substantially. In particular, there have been increases in activities like presorting, prebarcoding, walk sequencing, co-mailing, palletizing, co-palletizing, and dropshipping, all of which would decrease the per-piece revenue but none of which implies a change in any rate or in the average level of rates. In addition, the per-piece revenue is affected by changes in piece weight, the proportion of letters to flats, and the sending of Ride-Along pieces.

Tang's reliance on an inappropriate measure pervades her response. In every table and every explanation, she focuses on per-piece revenue and jumps to

¹ The construction of price indexes is closely related to the development of output and productivity measures, on which a considerable literature exists. Specifically, a revenue index divided by a quantity weighted output index is a price index, and a revenue index divided by a price index is an output index of the kind needed as the numerator of productivity measures. The Postal Service deals with these issues properly in its total *factor productivity* (TFP) indexes. See Dianne C. Christensen, Laurits R. Christensen, Charles E. Guy, and Donald J. O'Hara, "U.S. Postal Service Productivity: Measurement and Performance," pp. 237-259, in *Regulation and the Nature of Postal and Delivery Services*, edited by Michael A. Crew and Paul R. Kleindorfer, 1993, Kluwer. See also John W. Kendrick, *Productivity Trends in the United States. A Study by the National Bureau of Economic Research*, 1961, Princeton Press. In his volume testimony, Postal Service witness Thress develops appropriate price indexes. See USPS-T-7, p. 17, beginning on line 16. See also Thress's price indexes, USPS-LR-L-63, file *Prices.xls*, which shows in considerable detail the development of his indexes.

conclusion about rates. Such a transgression of logic is particularly affronting in this situation because most or all of the mailer activities influential in determining the per-piece revenues are performed at considerable cost to the mailers involved. Mailers incur the costs of both the worksharing activities and the higher postal rates, and the Postal Service tells them not to be concerned because the total amount they are paying in postage has not increased all that much.

(2) According to Tang, "[i]mplicit in Mitchell's comparison ... is the idea that Periodicals subclasses either would or should have maintained the same markup index over approximately a two-decade period." To the contrary, I have made no such assumption at any time, implicit or otherwise. In order to separate rate changes due to cost changes (the subject that I was addressing) from rate changes due to markup changes (a subject that I was not addressing), and for this reason only, my analysis develops rates as if the markup index had been unchanged.

(3) Tang then provides a gratuitous assessment of the merits of maintaining a constant markup index, and in course fails to respect or even acknowledge the logic underlying the index and the Commission's introduction of it. For example, she observes that a product that has large increases in worksharing relative to other subclasses, so that the Postal Service's costs for it decline substantially, would see rates with a smaller per-piece contribution the next time rates are set, and that some other product might accordingly receive a larger price increase than it otherwise would. She says that such outcomes are "neither reasonable nor sound" and "show convincingly that it is neither reasonable nor appropriate to assume that constant markup indexes would or

should be used as an element in developing product prices." She does not acknowledge that the outcome she condemns is a natural consequence of setting economically efficient rates, a normal and expected result of competitive forces. that it can easily be caused by other factors as well (such as a volume decline of another product), and that it is consistent with broadly accepted notions of equity. The reason the Commission adopted the practice of using markup indexes is that they provide a valuable reference point, particularly for comparing contribution burdens over time. The indexes should not be written off in such a peremptory way

b. *Yes.* Note that I discuss certain of the "significant structural changes .. in rate design" on page 3 of my testimony and that the effect of these changes is to make the relationship between Periodicals rates and the CPIU all the more troubling, not less

c. Yes as to worksharing opportunities. I am not certain what you mean by "productivity investments," but if you mean capital investments by the Postal Service in mail-processing technologies, the answer is also *yes*

d. Please *see* item number 3 in my response to part a of this interrogatory.

e. Changes in "relative costs" would involve such developments as transportation costs having declined (increased) relative to sorting costs, sorting costs having declined (increased) relative to mail handling costs, and delivery costs having declined (increased) relative to sorting costs, and so on. I do not know how

² Compare PRC Op. R90-1 (January 4, 1991), at IV-4:

We measure relative burdens with a markup index, which compares the markup for each subclass with the systemwide average markup. . . . We find this measure particularly valuable because it allows us to compare relative burdens from case to case, while case to case comparisons of cost coverages or unit contributions are made misleading by variations in the amount of total and attributable dollars involved.

relative costs have changed. Whatever has happened to them. no adjustments in
ratesetting principles should be needed

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1) TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE****USPS/TW-T1-2.**

Please refer to your testimony at page 17, lines 17 – 20, where you express concern about the container rate causing "mailers of 5-digit pallets to merge them into larger 3-digit pallets in order to reduce the container charges. . . ."

- a. Please confirm that the container rate proposed by the Postal service is \$0.85. If you do not confirm, please explain.
- b. Please confirm that **the** proposed 3-digit automation flat per-piece rate is \$0.327. If you do not confirm, please explain.
- c. Please confirm that the proposed 5-digit automation flat per-piece rate is \$0.255. If you do not confirm, please explain.
- d. Would the differential between the 3-digit and 5-digit piece rates tend to discourage the conversion of 5-digit pallets to 3-digit pallets? If not, please explain.
- e. Do you believe that mailers deciding whether to merge 5-digit pallets into larger 3-digit pallets should consider the impact on the piece rates that result, as well as the container rate? If not, please explain fully.

RESPONSE:

- a. confirmed
- b. Confirmed
- c. Confirmed
- d. No. When 5-digit pallets are merged to create 3-digit pallets, neither the bundles nor the presort levels of the pieces in the bundles are affected. Therefore, the piece rates cited in parts b and c of this question are irrelevant.

e. I believe that all such factors, including the handling costs of the bundles and the containers, which vary by entry point and container makeup, should be considered by mailers when they make mailing decisions. A primary reason supporting the rates I propose is that virtually none of these comparisons can be made under the current rates or the rates proposed by the Postal Service. However, the particular comparisons you suggest are irrelevant to the mailing decision to which your question has reference.

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for Witness Mitchell?

3 (No response.)

4 CHAIRMAN OMAS: There being none, that
5 brings us to oral cross-examination.

6 Two participants have requested oral cross,
7 the American Business Media Press and The McGraw-Hill
8 Companies.

9 Mr. Straus, you may begin.

10 CROSS-EXAMINATION

11 BY MR. **STRAUS**:

12 Q Mr. Mitchell, I'm David Straus for American
13 Business Media.

14 Your proposal is the same as the Postal
15 Service's on the ride along rate. You are aware,
16 aren't you, that MPA has proposed a reduction in the
17 ride along rate proposed by the Postal Service?

18 A Yes, I am.

19 Q Are you opposed to that MPA proposal?

20 A Well, in the sense that I propose something
21 different I'm automatically opposed to it, but I
22 haven't provided any specific assessment of that rate.

23 Q I didn't read your testimony as actually
24 proposing something different as much as simply going
25 along with what the Postal Service proposed on ride-

1 alongs.

2 You are affirmatively supporting the Postal
3 Service proposal on ride along rate?

4 A I think my testimony says that I adopted it.

5 Q Yes, I understand that. So do you support
6 it?

7 A It's part of my proposal.

8 Q Is there some reason you won't use the word
9 "support"?

10 A My only reservation is that I haven't
11 provided any specific analysis of that particular rate
12 which would provide support beyond the fact that I
13 adopted it.

14 Q I guess I'm trying to distinguish between,
15 for example, **MPA** and *ANM* adopted the feature of the
16 Postal Service's proposal that does not distinguish
17 between machinable and nonmachinable, but they adopted
18 it saying simply that they're not going to propose any
19 changes, but without really affirmatively supporting
20 it, the way I read it.

21 It's simply there's some things we're
22 looking at and some things we're not, and I'm just
23 trying to find out whether you affirmatively agree
24 with the Postal Service proposal or simply --

25 MR. KEEGAN: Mr. Chairman, I'm going to

1 object at this point. I believe the witness has
2 answered the question.

3 CHAIRMAN OMAS: Mr. Straus?

4 MR. STRAUS: He's dancing around the
5 question I think. I promise I'll try only one more
6 time.

7 CHAIRMAN OMAS: Yes.

8 THE WITNESS: I think you said you will try
9 one more time?

10 MR. STRAUS: Yes.

11 BY MR. STRAUS:

12 Q Okay. Are you in favor of the Postal
13 Service's proposal on ride along rates?

14 A Yes.

15 Q I'll ask you the same question I asked Mr.
16 Glick. He didn't answer it. Maybe you can.

17 The Time Warner response to POIR 19 shows --
18 you don't need to look at it. I'm not going to ask
19 you about that at the moment. You can if you'd like.
20 It shows I think for three publications there are
21 machinable increases in excess of 25 percent under the
22 Time Warner proposal.

23 If the Commission were to decide that it
24 liked much of the Time Warner proposal but just
25 thought that the impact on those who are hurt by it

1 was somewhat too severe and wanted to ratchet back some
2 of the increases that would result, is there one place
3 in your proposal that you think the Commission ought
4 to focus to make that kind of an adjustment?

5 A I don't think there's one place. One would
6 have to clarify exactly what kind of adjustment one
7 wanted to make.

8 My pass through is 60 percent, but I have
9 provided a spreadsheet which makes it very easy to
10 change that if it's desired.

11 Q So you would say that they should change the
12 pass through rather than change the basic design? I'm
13 not saying you would support it, but if in fact they
14 wanted to make the winners win a little bit less and
15 the losers lose a little bit less.

16 A I think the basic design is exceedingly
17 important because it goes toward cost drivers which
18 really need to be recognized to bring about an
19 effective subclass, so I strongly object to changes in
20 the structure.

21 That doesn't mean that it's not possible at
22 some point in the future to improve the structure, but
23 I don't know of any changes to it that would be
24 appropriate.

25 The easiest thing to do is to change some of

1 the pass-throughs, and I think I've said in several
2 interrogatory responses that I've built a spreadsheet
3 which makes that easy to do if one had a focus and a
4 purpose.

5 Q You say on page 21 of your testimony that
6 printers are investing in systems that create
7 copallets. Could you please describe the kinds of
8 systems you are talking about there?

9 A My statement there was based on my reading
10 of news items and things that are discussed at focus
11 groups, and in the Postal literature I have seen a
12 very large number of reference:: to mailers investing
13 in copalletization equipment.

14 Some of it is being done on site. Some of
15 it is being done off site by people like Farrington.
16 It does take some investment. I haven't quantified
17 how much, but my observation was meant just to be that
18 that is in fact happening.

19 Q I didn't ask you about investment. I asked
20 you to describe the kinds of systems. You said
21 they're investing in copalletizing equipment. What
22 kind of equipment are you talking about?

23 A I don't know the exact kinds of equipment
24 that are required to go into that business.

25 Q Do you know if in fact that any equipment

1 investment is necessary to copalletize in a printing
2 plant?

3 A I would think it would depend on how the
4 copalletization is done, but I can't specify. I'm
5 sure space is required for one thing. A building
6 would be required. Manpower would be required.

7 As far as the specific word "equipment",
8 which is what you asked, I can't tell you exactly what
9 equipment is needed.

10 Q I think the record will show that you used
11 the word "equipment" first. Okay. So you don't know
12 exactly what it is that they're doing.

13 What about comailing? Do you know whether
14 that requires equipment and what kind of equipment it
15 requires?

16 A My understanding is that a great deal of
17 comailing is done in line, which obviously requires
18 that some of the in line equipment be modified. Some
19 of it could be software. Some of it could be
20 specialized equipment itself. I can't provide you
21 with the details of what's required.

22 Q Please look at page 24 of your testimony.
23 I'm focusing on the bottom of that paragraph that
24 takes up most of the page.

25 In the last sentence in that paragraph in

1 which you're discussing firm bundles you say, "Since
2 they pay only one charge for multiple copies, they
3 should be well positioned to accommodate a change that
4 recognizes the costs caused."

5 Can you explain what you mean there?

6 A What I mean is *that* if you have 10 copies in
7 a firm bundle and you look at your cost per copy it
8 gets divided by 10.

9 I think people do tend to look at cost per
10 copy. Subscriptions are done on a per copy basis, so
11 I think that they're well positioned rate-wise to get
12 their copies distributed.

13 Q Well positioned rate-wise to get their
14 copies distributed? I really don't understand that
15 phrase.

16 A You have some people who are paying a rate
17 for each piece. They're paying a rate for maybe 10
18 pieces. On a per copy basis, that's a pretty low
19 rate.

20 Q So when you say well positioned to
21 accommodate a charge, you're saying that the mailers
22 can afford to pay more because they're paying a low
23 rate now?

24 A I'm saying that, yes.

25 Q So if a publisher is now paying say 20 cents

1 a copy for a publication, another one is paying 50
2 cents a copy, the person paying 20 cents a copy can
3 more readily accommodate an increase than the person
4 paying 50 cents a copy simply because he's paying
5 less?

6 A I don't think that's what I said.

7 Q Well, let's take somebody who has a lot of
8 firm bundles. I mean, don't they have a business
9 plan? Don't they have pricing? Don't they build
10 their product around the historic way that postage is
11 charged?

12 A I think Time is one example of a publisher
13 that has some firm bundles. Time is acknowledging
14 that the cost of these bundles is higher and that they
15 would have to pay that higher cost under this
16 proposal.

17 Q What if there was a publication that
18 distributed very, very heavily with firm bundles let's
19 say because they were delivering to schools? Let's
20 say they had a school product. My Weekly Reader. I
21 don't know if it still exists, but where their product
22 is firm bundles.

23 You're saying just because they're paying a
24 rate on one basis today they can easily afford a very
25 big increase tomorrow?

1 MR. **KEEGAN**: Mr. Chairman, I object. That
2 mischaracterizes the witness' response.

3 MR. STRAUS: I'll rephrase it. I think I'll
4 move on.

5 BY MR. STRAUS:

6 Q Please look at your responses to the data
7 requests now, to specifically American Business
8 Media's Question No. 1 to you.

9 A Okay.

10 Q That question references your testimony at
11 page 21 where you discussed copalletizing and
12 cornailing, and in part (a) we asked you to identify
13 the employees of printing companies, the names of the
14 companies with whom you discussed cornailing or
15 copalletizing since you filed yo-r testimony in the
16 complaint case.

17 Your answer was, "I may have talked to such
18 employees at meetings, but I do not recall any
19 specific conversations."

20 Since you already said today that your
21 answers to these questions would be the same if asked
22 today, I can assume, can't I, that you still have not
23 talked to any or cannot recall any specific
24 discussions with any printers about comailing and
25 copalletizing?

1 A Your question had to do with the
2 availability or the cost --

3 Q Right.

4 A -- of comailing and copalletization.

5 Q Yes.

6 A And you asked me if I talked to printing
7 companies or their employees.

8 Q Yes.

9 A And I said I couldn't recall any specific
10 discussions, and that's true today as well.

11 Q That was my question. It remains true
12 today. Since this question, you still have not
13 discussed --

14 A Yes.

15 Q You still cannot recall any discussions of
16 that nature?

17 A Yes.

18 Q Do you know with respect to any specific
19 printer whether that printer's charges to its
20 customers for copalletizing or comailing are less
21 than, equal to or greater than the costs incurred by
22 the printer to provide that service?

23 A No. The market should take care of that.
24 That's the printer's business, not mine.

25 Q So it's possible that some printers are

1 providing this service at or even below cost?

2 A I have no basis for saying that it's
3 impossible.

4 Q Please look at ABM's Question 3 and your
5 response.

6 A Okay.

7 Q The question asked you two alternatives. It
8 asked you whether your statement that you would
9 continue all current recognition of editorial matter
10 meant that the total benefit to all editorial matter
11 would be preserved or that no individual periodical
12 mailer would see its editorial benefit reduced.

13 You said, "Neither," but then I thought that
14 you agreed that you were doing the former with the
15 sentence, "I met this objective with editorial
16 benefits approximating those in the Postal Service
17 proposal."

18 Are you making a distinction there between
19 today's editorial benefit and the Postal Service's
20 editorial benefit?

21 A The question says would you continue all
22 current recognition.

23 Q Yes.

24 A **And** I took that to mean current rates.

25 Q That's what I'm trying to find out.

1 A There has been some adjustment by the Postal
2 Service from current rate, so I did not continue
3 what's in the current rates because what I did was
4 very similar to what the Postal Service did.

5 The second part of your question says, or
6 that no individual periodical mailer will see a
7 benefit reduced. I'm not sure how to measure the
8 benefit to specific publications, but obviously when
9 you change the structure from the current rates the
10 effect on individual mailers is related to their own
11 billing determinants.

12 Q Okay. So what your testimony said would
13 continue all current recognition of editorial matter?
14 That's on page 22, line 28.

15 A Okay. The reference to page 22 was a list
16 of objectives.

17 Q So you did not meet that objective?

18 A I explained that I met it by an editorial
19 benefit which is approximately equal to what the
20 Postal Service proposed.

21 Q But you also said the Postal Service
22 proposal was not the same as the current, so I don't
23 know how you meet the current benefit by doing the
24 same as the Postal Service did when what the Postal
25 Service did was different from the current benefit.

1 A I think the statement on page 22 is a rather
2 general statement. I wouldn't argue that the Postal
3 Service reduced the editorial benefit. I think they
4 recognized it in a slightly different way.

5 You know, it wasn't a statement that said
6 that I recognize the current editorial benefit in
7 exactly its same form as it is now. Obviously the
8 form has changed a little bit.

9 Q The statement in your interrogatory response
10 reads as follows: "I met this objective with
11 editorial benefits approximating those in the Postal
12 Service proposal."

13 A Yes.

14 Q If I change that to say I met this objective
15 with editorial benefits approximating those in current
16 rates would that be a true statement?

17 A I don't have any measure of the level of
18 editorial benefit over time. We have no index. We
19 have no comparison on the record. I'm not sure how to
20 build one, so I think my statement should stand the
21 way it is.

22 Q Well, I don't know how you can easily state
23 as *you* did that what you've done approximates the
24 Postal Service's. When I asked you whether it
25 approximates today's all of a sudden you're unable to

1 make a comparison.

2 A I said that I approximated the Postal
3 Service's benefit. I said that they had changed it
4 slightly from the form that it took today, and I said
5 that I did not have any index to compare the average
6 level over time from one set of rates to another, but
7 I think roughly they have maintained the level of
8 editorial benefit, and I approximated theirs.

9 Q Okay. We'll move on. Please look at
10 Question 5.

11 A Okay.

12 Q Your rate proposal makes a distinction, does
13 it not, between machinable and nonmachinable pieces?

14 A Yes.

15 Q And in the Time Warner response to POIR 19
16 didn't Time Warner point out that the very large
17 increases shown there tend to be for nonmachinable
18 pieces?

19 A Yes. I think that's generally true. I
20 haven't tabulated those myself, but I think that's
21 generally true.

22 Q And just so it's clear, by machinable you
23 would exclude pieces that can be handled by the FSM
24 1000 only and limiting it to the AFSM 100?

25 A The machinability is defined on the AFSM

1 100.

2 Q So a publication that can be handled on an
3 FSM 1000 would be deemed nonmachinable?

4 A That's right.

5 Q Okay. In Question No. 5 we asked you what I
6 thought was a pretty simple and straightforward
7 question, which is to describe the types of
8 publications that are not machinable.

9 Who is it that's going to pay these very
10 large increases? I've tried to parse this answer into
11 figuring out what it says, but I'm not exactly sure.
12 Can you give any examples of the kinds of publications
13 that would be required under your proposal to pay the
14 nonmachinability rate?

15 A My answer says that the Postal Service
16 defines machinability, so the way to approach this
17 would be to get out the page of the DMM which defines
18 machinability, and we could say that publications that
19 fell outside of that would pay the higher rates.

20 Q We could, but we could also say a
21 publication that weighs more than four pounds. I
22 mean, you could say that right now today if that's the
23 limit. I don't know. Or you could say a publication
24 that's bigger than a certain size or maybe a daily
25 newspaper that's rolled up.

1 I'm not asking you for specifications.
2 Those are in the DMM. I'm asking you for the kinds of
3 actual publications in the mail that would fail to
4 meet the machinability test and would pay these high
5 rates.

6 Are you saying you cannot identify a single
7 example in the mail of a publication that is
8 nonmachinable?

9 A Well, I think your example of a newspaper
10 that's rolled up in a big roll, I don't know that
11 that's a type of publication.

12 That's what you ask in your question was a
13 type of publication. I think that would be an
14 example, but, you know, as far as the height goes
15 there's a maximum height. If someone is a little
16 above that then they're nonmachinable. There's a
17 number of specs involved here.

18 Q So you had one example. You agreed with me
19 that a rolled newspaper is a kind of mail piece, a
20 periodical mail piece that's nonmachinable. Maybe
21 that's the problem. I used type of publication.

22 How about if I say what types of periodical
23 mail pieces would pay the nonmachinable rate?

24 A Well, I still might have trouble with the
25 word "types", but I think I made it clear that we

1 could get out the DMM, and we could look at a series
2 of specs. We could say if it's over this weight spec
3 or over this height or over this width spec it
4 wouldn't be machinable.

5 Q Is a typical tabloil-shaped publication
6 machinable?

7 A I think a large number of the tabloids are
8 rather tall, but I don't know whether or not they vary
9 in height, and I don't know how many of them would be
10 over that height. I think it's entirely possible that
11 some of them would be nonmachinable.

12 Q Is a digest-sized publication machinable?

13 A I don't know.

14 Q In ABM Question 6 we asked about your
15 statement that the effects of the rates you propose on
16 small mailers are limited. I've looked at the
17 response to POIR 19, and it looks to me there that the
18 increases for that sample would be limited to 46
19 percent for nonmachinable pieces and 37 percent for
20 machinable pieces.

21 Is that what you had in mind when you said
22 that the effects on small mailers were limited?

23 A What I had in mind is that with the 60
24 percent pass through that there's a substantial
25 attenuation of the relationship between the costs and

1 the rates, and in that sense I think it's
2 substantially limited.

3 Q So you aren't talking about the actual rate
4 impact that came out of the other end of your
5 proposal? You were talking about your proposal itself
6 didn't go as far as it might have?

7 A I think the specific rate impacts are still
8 being calculated.

9 Mr. Stralberg has studied those much more
10 carefully than I have so if there's a question on that
11 POIR response and the reasons for those outcomes I
12 think he could give you a better answer.

13 Q That wasn't the focus of my question. The
14 focus of my question was your testimony that the
15 effects are limited, and it's whether in saying that
16 you were discussing the actual rate impact that came
17 out of the other end of this machine you've created or
18 whether the system you've created limits the results.

19 There's two points. Were you saying that
20 the limits are the limits on the rate increases or the
21 limits are because you didn't pass through as much as
22 you might have?

23 A I think the latter primarily, but I think it
24 will lead to a pretty acceptable pattern of actual
25 rate increases. There will be some that will be

1 higher.

2 Q What did you know about the pattern of rate
3 increases at the time you proposed your rates?

4 A I think Witness Stralberg provided an
5 interrogatory response which explained all of the runs
6 that we did before we filed the testimony.

7 I think there were about five publications
8 of ours that we ran. We didn't run any others, so it
9 was not a process of looking at various rates and
10 running publications and trying to get a certain
11 outcome.

12 Q So when you said the effects are limited,
13 you had a total of five data points?

14 A I wouldn't even go so far as to say that
15 because we didn't base the proposal on the outcome of
16 those five data points.

17 Q Then how did you know that the effects on
18 small mailers were limited?

19 A I explained several reasons. This
20 interrogatory has one through five listed in it, and I
21 think in total those point to a substantial limitation
22 of effects.

23 Q Okay. The next question relates to your
24 next response to ABM No. 10. You say there that some
25 weeklies are being comailed.

1 Do you have anything in mind other than
2 those identified in Mr. White's testimony, the two he
3 identified, one with a circulation of I think 400,000
4 and some and one with a circulation of over one
5 million?

6 A I have heard people say that some weeklies
7 are being comailed. I don't have any specific in
8 mind. This one by Mr. White was one that happened to
9 be on the record so I pointed to it.

10 Q But you don't know of any others?

11 A You know, I was at a focus group meeting two
12 weeks ago, and two publishers made presentations on
13 comailing. I'm sure that at least one of them was
14 weekly, but I can't remember which one it was.

15 Q Who were the publishers?

16 A One of them was Banta.

17 Q That's a publisher?

18 A A printer. I'm sorry. One was Farrington,
19 but that was primarily on copalletization. I think
20 there was one other one. It might have been -- I
21 shouldn't say if I'm not sure, but I know there were
22 three.

23 Q Please look at ABM Question 12 and your
24 response.

25 A Okay.

1 Q I believe that I probably phrased the
2 question badly by asking whether the incentives are
3 adequate to encourage comailing, so let me rephrase it
4 the way I really intended it.

5 Do today's rates offer incentives for
6 comailing and copalletizing that have actually led to
7 comailing and copalletizing?

8 A Did you say that have actually led to?

9 Q Yes.

10 A Well, the presort discounts themselves
11 provide a benefit if comailed pieces achieve a
12 different level of presortation, so certainly there
13 are rate effects in the current rates.

14 Q So the current rates provide an incentive,
15 but in your mind just not an adequate incentive? Is
16 that fair?

17 A My use of the word "adequate" was that the
18 current rates don't follow costs well and therefore
19 don't provide a good framework for comailing and
20 copalletization decisions to be made.

21 I haven't tried to achieve something that's
22 adequate. I haven't tried to achieve an increase or a
23 decrease. I've tried to establish a framework of
24 rates which allows those decisions to be made.

25 Q Let me try again. Is it your view that

1 today's rates provide an incentive to comail and
2 copalletize, but that the incentive in today's rates
3 is not an adequate incentive?

4 A I have said that it's not adequate in the
5 sense that it does not represent costs well, and
6 therefore good decisions cannot be made.

7 Q But you're not answering the first part of
8 my statement, which was that today's rates do provide
9 an incentive, just not an adequate one in your view?

10 A I have agreed with the part that says that
11 it does provide an incentive.

12 Q Okay. Thank you. In response to McGraw
13 Question 3(b) you say that with competition you would
14 expect printers' charges, and there you're referring
15 to charges for copalletizing, to be based on their
16 costs, not on the application of some proportion to
17 the savings in postage with competition.

18 Can you explain why a pricing system based
19 on costs rather than something else necessarily
20 results from competition?

21 A I think there will be competition among
22 printers for business regardless of what the rate
23 structure is.

24 I didn't understand the end of your
25 question. It sounded like there would be competition

1 under one set of rates and not under another one?

2 Q No. Let me read your statement without
3 changing the order of your words. "With competition,
4 I would expect printers' charges to be based on their
5 costs, not on the application of some proportion to
6 the savings in postage."

7 So what you're hypothesizing there or
8 assuming there is that maybe today printers are
9 charging on the basis of postage savings, but with
10 greater competition you expect them to be charging on
11 the basis of their costs. Isn't that what you said?

12 A Well, Question 3(b) says particularly if a
13 printer's copalletization charges are based on a
14 percentage of the postage saved, and I took that to
15 mean that there was some kind of rule or pattern
16 relating to the percentage of the postage saved.

17 I don't think that's the way it works. I
18 think that printers look at a big picture. They
19 compete for customers, and they try to make a profit.
20 What they do is not well described by some percentage.

21 Q Do real estate agents compete for business?

22 A In the general sort of way, yes.

23 Q Well, if you wanted to put your house on the
24 market there would be more than one agent and more
25 than one company willing to take that listing,

1 wouldn't there?

2 A There's more than one company willing to
3 take the listing.

4 Q And isn't it true that most or maybe nearly
5 all of those companies would base their price to you
6 as a percentage of the value of the sale rather than
7 on their cost of providing the service?

8 A I think a large number of them honor the
9 same percentage, but there's also quite a number that
10 compete otherwise.

11 Q But you would agree, wouldn't you, that the
12 leading real estate companies base their prices on a
13 percentage of the sales price rather than their costs?

14 A I think beyond some general statements about
15 real estate that I don't have a strong basis for
16 reaching conclusions about.

17 Q Okay. In Question 14 from McGraw-Hill, and
18 I guess we're getting back to machinability.

19 A I'm sorry?

20 Q McGraw-Hill Question 14.

21 A I only have 11 McGraw-Hill.

22 Q I'm sorry. My apologies. It's Question 4.
23 I need new glasses, so I'll take them off.

24 A Okay.

25 Q You say that based upon your M-TAC

1 participation you know that a great deal of attention
2 is paid to the content and interpretation of
3 machinability standards and how pieces can be changed
4 to meet them.

5 Isn't it true that nearly all of that
6 attention is devoted to classes other than
7 periodicals?

8 A I don't think so.

9 Q All right. Describe for me then some of the
10 discussions and conversations and attention that's
11 been paid to the content and interpretation of
12 machinability standards as they apply to periodicals

13 A Well, I think the term "trim size" is the
14 one that comes to mind most quickly. I know a number
15 of publications have changed their trim size over
16 time. They've also changed the weight of the paper
17 that they use.

18 Q Do you know publications that changed their
19 trim size to meet machinability standards or just
20 changed their trim size to save paper costs or postage
21 costs?

22 A Obviously these decisions are made within a
23 larger framework than just machinability, but I think
24 postage is an input to the decisions.

25 Q Is a great deal of attention paid at M-TAC

1 meetings to trim size of periodicals as it applies to
2 machinability?

3 A I think machinability is a concern. I mean,
4 this is a general statement here that machinability
5 gets some attention.

6 Q All right. Let me cut to the chase. You
7 say that you've heard discussions at mailer meetings,
8 including **M-TAC**, and a great deal of attention is
9 paid.

10 Can you give me one example of a periodical
11 mailer that made an adjustment to its publication in
12 order to become machinable?

13 A The one that comes to mind is Fortune
14 magazine, which has changed its size substantially
15 over time, but I can't testify to all of the factors
16 that were involved in the decisions to change that one
17 so I can't say gee, this is how it resided in terms of
18 machinability.

19 Q So you don't know whether any of the changes
20 in the trim size of Fortune had anything to do with
21 machinability, do you?

22 A I think in general that was a consideration,
23 but I can't provide you with any details.

24 Q When was that a consideration? When did
25 they make the size change when machinability was a

1 consideration?

2 A I can't tell you when. I'm sure it's been
3 several years.

4 MR. STRAUS: That's all I have. Thank you.

5 CHAIRMAN OMAS: Thank you, Mr. Straus.

6 Mr. Bergin?

7 MR. BERGIN: Mr. Chairman, I have no follow-
8 up questions.

9 CHAIRMAN OMAS: Thank you, sir.

10 Is there any other participant who --

11 MR. RUBIN: The Postal Service has a few
12 questions.

13 CHAIRMAN OMAS: Mr. Rubin?

14 CROSS-EXAMINATION

15 BY MR. RUBIN:

16 Q Good morning, Mr. Mitchell. I'm David Rubin
17 for the Postal Service.

18 A Good morning.

19 Q Would you turn to page 22 of your testimony?
20 There you present nine objectives for rate design.
21 The ninth one is to move at a measured pace toward a
22 more cost-based periodical rate design. Is that
23 correct?

24 A Yes.

25 Q Do you agree that all the periodicals'

1 proposals in this case -- the Postal Service's, MPA's
2 and Time Warner's -- all to some extent move toward a
3 more cost-based periodicals rate design?

4 A No.

5 Q So do you feel that the Postal Service's
6 addition of a container rate and recognition of the
7 editorial portion of publications in drop ship
8 discounts is not a move toward a more cost-based rate
9 design?

10 A There is an element of movement on an
11 average basis towards something that is a little more
12 cost-based, but I think I explain in my testimony a
13 specific example that Witness Tang provided, and I
14 show that the relationship of the rates there to cost
15 is extremely troublesome.

16 Yes, I agree that there's a very rough sense
17 in which you can say that there's an element of
18 movement towards recognition, but I think it also
19 introduces so many questions that it's not clearly a
20 net gain.

21 Q And what about the MPA proposal? Is it
22 moving towards a more cost-based rate design?

23 A No, I don't think it is.

24 Q **And** why do you believe that?

25 A Well, I think for two reasons. Number one,

1 we have shown that we understand very clearly what the
2 important cost drivers are, and we have proposed to
3 introduce those drivers and move toward them. The MPA
4 proposal does not introduce those cost drivers.

5 I think the second reason is that the MPA
6 proposal moves backwards and increases the reliance on
7 a per piece discount for palletization, and I think I
8 have been on record for some time as saying that
9 pallet costs are not incurred on a per piece basis.

10 I think the MPA proposal would further
11 entrench us in an increased per pallet discount that
12 we might have to back away from in the future, and I
13 think it might be painful to back away from it.

14 One of the problems with the Postal Service
15 proposal in this case is that we have a one and a half
16 cent -- sometimes larger -- pallet discount in place,
17 and when you have to back away from that large a
18 pallet discount in order to put something else in it
19 has some effects.

20 I'm afraid in the MPA proposal that we're
21 instituting something that we're going to have to back
22 away from, and we're going to cause larger effects on
23 ourselves in the future if we move toward a rate
24 structure that appropriately represents costs.

25 Q Now would you turn to your response to ABM

1 Interrogatory T1-5? You talked about this a little
2 with counsel for ABM earlier today.

3 A Yes, on machinability.

4 Q The first sentence of your response states
5 that, "The Postal Service defines machinability and
6 would continue to do so under the rates I propose."

7 Do you think if the Time Warner proposal to
8 base rates partly on machinability were adopted in
9 this rate case that there would be pressure on the
10 Postal Service to change the definition of
11 machinability?

12 A I think there are always pressures on the
13 Postal Service to make changes of that kind, and I
14 think we have to count on the Postal Service to look
15 into the questions that are raised and to make an
16 efficient decision.

17 Q And so the Postal Service would make those
18 decisions in between the time that the rates are
19 recommended and they are implemented?

20 A Well, there are some definitions in place
21 now. I haven't suggested that changes need to be
22 made, but the Postal Service could consider what was
23 the most appropriate thing to do. I'm not trying to
24 rule out the possibility of progress as time goes on.

25 MR. RUBIN: Thank you. That's all I have.

1 CHAIRMAN OMAS: Thank you, Mr. Rubin.

2 Is there anyone else? Mr. Bergin? Would
3 you put your mic on and introduce yourself for the
4 record, please?

5 CROSS-EXAMINATION

6 BY MR. BERGIN:

7 Q Good morning, Mr. Mitchell. Tim Bergin for
8 The McGraw-Hill Companies.

9 A Good morning.

10 Q I just have one follow-up question at this
11 point regarding a question Mr. Rubin just posed.

12 If you had to choose, putting aside the
13 proposal that you've sponsored on behalf of Time
14 Warner, and I understand that you advocate that
15 proposal of course, but if you had to choose between
16 the proposal in this case presented by the Postal
17 Service and the proposal presented on behalf of MPA
18 and ANM, which would it be and why?

19 A I have talked about aspects of both
20 proposals, but I think before I would go on record as
21 choosing one or the other if that hypothetical
22 situation were presented to me I think I would do some
23 further analysis before I would feel comfortable doing
24 that.

25 Q Well, can you speak in general terms? For

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1 example, the Postal Service has proposed a container
2 charge, and MPA has proposed a per piece pallet
3 discount in lieu of a container charge.

4 There has been testimony that they're in
5 some sense on opposite sides of the coin; that a
6 container charge of 85 cents is equivalent to a pallet
7 discount of 1.9 cents and so forth.

8 You took issue with the concept of a per
9 piece pallet discount just a few minutes ago. Can *you*
10 elaborate on how you assess the container charge as
11 opposed to the per piece pallet discount?

12 A I'll tell you why I'm a little
13 uncomfortable. I'm a little uncomfortable because I'm
14 not prepared to make a decision on the merits between
15 one and the other and to provide a reason for it.

16 If I'm not prepared to say that I've done
17 the following kind of analysis and I have the
18 following kind of reasons, then I feel a little
19 uncomfortable saying I prefer one to the other.

20 What I have done is to indicate that some
21 questions need to be raised on both of them, and we
22 have proposed something different which I think deals
23 with those questions.

24 MR. BERGIN: I have nothing further, Mr.
25 Chairman.

1 CHAIRMAN OMAS: Thank you, Mr. Bergin.

2 Is there anyone else?

3 (No response.)

4 CHAIRMAN OMAS: Are there questions from the
5 bench?

6 (No response.)

7 CHAIRMAN OMAS: There being no questions
8 from the bench, Mr. Keegan, would you like some time
9 with your witness?

10 MR. KEEGAN: Yes, Mr. Chairman. May we have
11 five minutes?

12 CHAIRMAN OMAS: Absolutely.

13 (Whereupon, a short recess was taken.)

14 CHAIRMAN OMAS: Mr. Keegan?

15 MR. KEEGAN: Mr. Chairman, Time Warner has
16 no redirect.

17 CHAIRMAN OMAS: Thank you, sir.

18 Mr. Mitchell, that completes your testimony
19 here today. We appreciate your appearance and your
20 contribution, and you are now excused.

21 THE WITNESS: Thank you.

22 (Witness excused.)

23 CHAIRMAN OMAS: Mr. Keegan, would you please
24 introduce your next witness?

25 MR. KEEGAN: If we may have just a moment,

1 Mr. Chairman, to get organized?

2 (Pause.)

3 MR. KEEGAN: Mr. Chairman, Time Warner, Inc.
4 calls Halstein Stralberg.

5 CHAIRMAN OMAS: Mr. Stralberg, please raise
6 your right hand.

7 Whereupon,

8 HALSTEIN STRALBERG

9 having been duly sworn, was called as a
10 witness and was examined and testified as follows:

11 CHAIRMAN OMAS: Please be seated.

12 DIRECT EXAMINATION

13 (The document referred to was
14 marked for identification as
15 Exhibit No. TW-T-2.)

16 BY MR. KEEGAN:

17 Q Mr. Stralberg, do you have before you two
18 copies of a document entitled Direct Testimony of
19 Halstein Stralberg on Behalf of Time Warner, Inc.?

20 A Yes, I do.

21 Q And is that marked for identification as
22 TW-T-2?

23 A Yes.

24 Q Was that testimony prepared by you?

25 A Yes.

1 Q And are there any changes or corrections
2 since its original filing?

3 A Except that I have added a supplementary
4 statement on page 7 which calls attention to my
5 response to POIR No. 18.

6 Q With that addition, would your testimony be
7 the same if you were giving it orally today?

8 A Yes, it would.

9 Q And are there any library references that
10 are associated with your testimony?

11 A Yes. Library Reference No. 2 and No. 4,
12 TW-LR-2 and TW-LR-4.

13 The first one was filed at the same time as
14 my original testimony. TW-LR-4 was filed at the same
15 time as my response to POIR 18, and it's referenced in
16 the supplementary statement that I just referred to.

17 MR. KEEGAN: Mr. Chairman, I move that
18 TW-T-2 and TW-Library Reference No. 2 and Library
19 Reference No. 4 be admitted into evidence.

20 CHAIRMAN OMAS: Is there any objection?

21 (No response.)

22 CHAIRMAN OMAS: Hearing none, Mr. Keegan,
23 would you please provide the reporter with two copies
24 of the corrected direct testimony of Mr. Stralberg?

25 That testimony is received into evidence.

1 However. as is our practice, it will not be
2 transcribed.

3 (The document referred to,
4 previously identified as
5 Exhibit No. TW-T-2, was
6 received in evidence.)

7 CHAIRMAN OMAS: Mr. Stralberg, have you had
8 an opportunity to examine the packet of designated
9 written cross-examination that was made available to
10 you this morning?

11 THE WITNESS: Yes, I have.

12 CHAIRMAN OMAS: If the questions contained
13 in that packet were posed to you today orally would
14 they be the same as those you previously provided in
15 writing?

16 THE WITNESS: There's one small exception,
17 and I don't really have a rewording, but in my answer
18 to POIR 19 on page 5 there is a footnote, No. 11,
19 where I say that I am not aware of any publications or
20 any comailers that can handle ncnmachinable flats.

21 I was made aware yesterday that Donnelley is
22 preparing a comail line specifically for tabloid size
23 publications. My statement here is no longer exactly
24 true.

25 CHAIRMAN OMAS: Okay. Are there any

1 additional corrections or additions you'd like to make
2 to those answers?

3 THE WITNESS: No.

4 CHAIRMAN **OMAS**: There being none, Mr.
5 Keegan, again would you please provide two copies of
6 the corrected designated written cross-examination of
7 Witness Stralberg to the reporter?

8 That material is received into evidence and
9 is to be transcribed into the record.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. TW-T-2 and was
13 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF TIME WARNER INC.
WITNESS HALSTEIN STRALBERG
(TW-T-2)

Party

Interrogatories

American Business Media

ABM/TW-T1-7-9 redirected to T2
MH/TW-T2-4, 6

McGraw-Hill Companies, Inc., The

MH/TW-T2-1, 3-4, 6

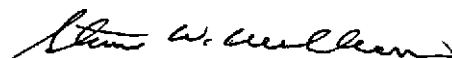
Postal Rate Commission

ABM/TW-T1-7-9 redirected to T2
MH/TW-T2-1-6
PRC/TW-POIR No.18 - Qa (part 2 of 2) redirected
to T2
USPS/TW-T2-1-19
PRCTTW-POIR NO. 19

United States Postal Service

MH/TW-T2-1, 4, 6
USPS/TW-T2-1-9, 11-19

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
TIME WARNER INC.
WITNESS HALSTEIN STRALBERG (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

ABM/TW-T1-7 redirected to T2

ABM/TW-T1-8 redirected to T2

ABM/TW-T1-9 redirected to T2

MH/TW-T2-1

MH/TW-T2-2

MH/TW-T2-3

MH/TW-T2-4

MH/TW-T2-5

MH/TW-T2-6

PRCITW-POIR No.18 - Qa (part 2 of 2) redirected to T2

USPS/TW-T2-1

USPS/TW-T2-2

USPS/TW-T2-3

USPSTTW-T2-4

USPS/TW-T2-5

USPS/TW-T2-6

USPS/TW-T2-7

USPS/TW-T2-8

USPS/TW-T2-9

USPS/TW-T2-10

USPS/TW-T2-11

USPS/TW-T2-12

USPS/TW-T2-13

USPS/TW-T2-14

USPS/TW-T2-15

USPS/TW-T2-16

USPS/TW-T2-17

USPS/TW-T2-18

USPS/TW-T2-19

PRCTTW-POIR NO. 19

Designating Parties

ABM, PRC

ABM, PRC

ABM, PRC

McGraw-Hill, PRC, USPS

PRC

McGraw-Hill, PRC

ABM, McGraw-Hill, PRC.

USPS

PRC

ABM, McGraw-Hill, PRC.

USPS

PRC

PRC, USPS

PRC, USPS

PRC, USPS

PRC, USPS

PRC, USPS

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PRC

Revised ABM/TW-T1-7
Page 1 of 1

**REVISED RESPONSES OF TIME WARNER WITNESS STRALBERG (TW-T-2)
TO INTERROGATORIES OF AMERICAN BUSINESS MEDIA
REDIRECTED FROM WITNESS MITCHELL (TW-T-1)**

ABM/TW-T1-7. Please describe in detail, and produce, all studies you or someone else performed for or on behalf of Time Warner to determine the effect of your proposal on Periodicals mailers.

RESPONSE: See my answers to ABM/TW-T1-8 and 9, which include all the publications on which I have analyzed to date the impact witness Mitchell's role design would have. Due to a shortage of time, the only publications analyzed before the filing of Mitchell's testimony were the six Transworld publications, owned by Time Inc., and Time magazine.

ABM/TW-T1-8. ~~Please~~ provide information similar to that provided in Docket No. C2004-1 showing, for a recent and representative issue of each publication produced by Time Warner (names may be coded), the approximate mailed circulation, the approximate mailed circulation in its main file, the frequency, the percentage of the main file and the percentage of supplemental mailings mailed in sacks, whether or not the publication is ~~now~~ co-mailed or co-palletized, the percentage of pieces sorted to carrier route, the percentage of pieces on 5-digit or carrier route pallets, and postage per copy for the main file and for supplemental mailings at the present rates and at the rates you propose.

RESPONSE: See Tables ABM/TW-T1-8a and 8b. The first table summarizes the requested characteristics of the 42 Time Warner Periodicals that are distributed through the mail in the United States. Table ABM/TW-T1-8b shows, for a recent sample issue of each publication, and separately for the publication's main **file** and **its** supplemental mailings, the per-piece postage under current rates, the rates proposed by witness Tang and the rates proposed by witness Mitchell.

Many of Time Warner's publications use comailing or co-palletization for their supplemental files. Some use comailing or co-palletization also for their main file. Generally, when a mailing is comailed or co-palletized, the comailer (e.g. printer) keeps (and does not release to individual participants) some of the information (e.g., number of bundles, sacks and pallets in the total mailing) that would be necessary to determine postage for individual publications under the rates proposed by witness Mitchell or the rates proposed by witness Tang in this docket. Consequently it was impossible to provide all the requested information for the publications that do use comailing or co-palletization.

SUPPLEMENTAL RESPONSE (10126106):

My response to ABM/TW-T1-8, filed on October 3, 2006, provided Tables ABM/TW-T1-8a and 8b. The latter table shows, for a recent sample issue of each publication produced by Time Warner, and separately for the publication's main file and its supplemental mailings, the per-piece postage under **current** rates, the rates proposed by witness Tang, and the rates proposed by witness Mitchell.

I did **not** realize at the time that *two* of these publications, identified in the tables as publications number 30 and 31, are co-palletized with each other; that is they are

entered into the postal system on the same pallets. My initial calculations assumed that each publication would pay for all the pallets used. when in fact those pallets would be shared and the pallet charges included in witness Mitchell's rate proposal would therefore also be shared between the two publications.

I have corrected my estimates for the two publications. The results are included in Revised Table ABM/TW-T1-8b. In deriving my revised estimates, I have assumed that each of the two publications would pay for the share of the pallet space that it uses. This leads to a sharp drop in the estimated cost for the smaller of the two publications (publication number 31) and a smaller drop for publication number 30.

I have also revised slightly my estimates of the postage publications 30 and 31 would pay under the rates proposed by witness Tang, because I assume that Tang's proposed 85 cent container charge would also be shared between the two publications according to how much of the pallets they use.

Under the corrections described above, the postage for publication 30 would increase by 39.3% and for publication 31 by 24.3% under the rates proposed by Mitchell as compared to current rates. That these increases still are much higher than the Periodicals average is due to the fact that both publications exclusively use firm bundles and that Mitchell's rate design sets the rate for firm bundles according to the way they are handled by the Postal Service. namely as bundles that are sorted in bundle sorting operations rather than as pieces sorted in piece sorting operations.

Revised ABM/TW-T1-8
Page 3 of 4

1	File ABM	TW-T1-8	Tir	Warner Publications Mailed In the United States					
Pub No	Mailed	ulation	req.	% Pcs in Sacks		% Comail	% Copal	% Carrier	% on
	Total	Main File		Main file	Supple- mental			Roule	50 Pallets
1	4154472	4154472	51	1.94%	0.0093	0.00%	0.24%	89.40%	16.92%
2	3138235	3138235	51	1.29%	0.00%	0.00%	0.61%	88.61%	7.76%
3	2346184	2346184	51	2.57%	0.00%	0.00%	0.00%	81.77%	8.84%
4	1860267	1860267	48	1.33%	0.00%	0.00%	0.00%	77.84%	3.33%
5	799753	795179	25	3.51%	100.00%	0.00%	0.00%	47.00%	4.11%
6	1869682	1839685	12	3.59%	100.00%	0.00%	0.00%	69.67%	12.72%
7	1079635	1068364	13	0.75%	100.00%	0.00%	0.00%	56.82%	37.86%
8	1604277	1454777	12	1.52%	24.60%	0.00%	0.00%	57.08%	28.30%
9	880980	826437	12	copal	copal	0.00%	6.89%	56.04%	copal
10	391561	376297	10	10.03%	100.00%	0.00%	0.00%	32.61%	1.54%
11	915949	845949	10	2.96%	100.00%	0.00%	0.00%	34.00%	0.75%
12	594927	590025	11	2.39%	100.00%	0.00%	0.00%	22.01%	0.19%
13	635129	551156	10	7.12%	100.00%	0.00%	0.00%	21.50%	3.42%
14	1566814	1451136	12	2.41%	55.26%	0.00%	0.00%	52.87%	7.53%
15	869781	779299	9	cornail	comail	95.00%	0.00%	69.53%	comail
16	1384272	1192306	10	cornail	cornail	95.00%	0.00%	62.33%	comail
17	633755	599187	10	2.15%	100.00%	0.00%	0.00%	60.85%	0.00%
18	355643	310852	6	10.42%	100.00%	0.00%	0.00%	19.68%	3.82%
19	2664922	2523308	12	0.89%	37.31%	0.00%	0.00%	74.61%	42.94%
20	1503772	1349078	11	2.17%	comail	10.29%	0.00%	50.54%	cornail
21	145298	144298	12	12.72%	100.00%	0.00%	0.00%	7.27%	0.00%
22	921190	893190	10	4.51%	cornail	3.04%	0.00%	42.33%	comail
23	1188795	1162861	12	4.48%	comail	2.18%	0.00%	54.72%	comail
24	162499	159499	12	10.23%	100.00%	0.00%	0.00%	14.52%	0.00%
25	450047	395155	8	4.14%	cornail	12.20%	0.00%	37.20%	cornail
26	337752	257752	7	7.90%	cornail	23.63%	0.00%	41.29%	cornail
27	119551	116551	12	5.59%	100.00%	0.00%	0.00%	8.19%	0.00%
28	1152016	1127345	10	cornail	cornail	98.29%	0.00%	85.91%	cornail
29	2273015	2076281	11	cornail	cornail	84.12%	0.00%	64.41%	cornail
30	116594	106594	26	8.40%	100.00%	0.00%	0.00%	53.81%	0.00%
31	29055	29055	8	7.83%	none	0.00%	0.00%	39.38%	0.00%
32	809011	776011	12	0.70%	100.00%	0.00%	0.00%	47.69%	0.00%
33	1006601	1006601	10	cornail	none	70.00%	0.00%	54.93%	cornail
34	1312054	1259965	12	2.17%	cornail	3.97%	0.00%	59.10%	cornail
35	268603	258103	12	3.67%	100.00%	0.00%	0.00%	4.05%	0.00%
36	1404607	1283690	12	2.28%	59.87%	0.00%	0.00%	67.83%	30.79%
37	89035	81343	12	5.51%	copal	0.00%	8.64%	1.00%	0.00%
38	97668	65665	9	12.07%	copal	0.00%	32.77%	3.50%	0.00%
39	51801	50321	12	17.14%	copal	0.00%	2.86%	0.00%	0.00%
40	29355	28355	12	76.04%	copal	0.00%	3.41%	0.00%	0.00%
41	74175	57172	12	14.52%	copal	0.00%	22.92%	1.84%	0.00%
42	26208	24208	6	53.49%	copal	0.00%	7.63%	1.50%	0.00%

Revised ABM/TW-T1-8
Page 4 of 4

Revised Table ABM/TW-T1-8b
(10/26/06)

T	Pub No.	le ABM/TW R2005-1	1-8b: Postage/Piece Under Difference			nt Rate Designs	
			Main file Tang	Mitchell	R2005-1	pplements Tang	Mitchell
1		\$0.164	\$0.186	\$0.171	none	none	none
2		\$0.164	\$0.185	\$0.171	none	none	none
3		\$0.207	\$0.232	\$0.222	none	none	none
4		\$0.192	\$0.215	\$0.206	none	none	none
5		\$0.302	\$0.334	\$0.331	\$0.482	\$0.554	\$0.532
6		\$0.267	\$0.295	\$0.289	\$0.461	\$0.536	\$0.533
7		\$0.610	\$0.650	\$0.676	\$0.999	\$1.147	\$1.191
8		\$0.505	\$0.541	\$0.567	\$0.490	\$0.534	\$0.520
9		\$0.304	copal	copal	\$0.357	copal	copal
10		\$0.271	\$0.301	\$0.303	\$0.509	\$0.573	\$0.519
11		\$0.305	\$0.335	\$0.336	\$0.525	\$0.594	\$0.545
12		\$0.282	\$0.311	\$0.317	\$0.448	\$0.518	\$0.515
13		\$0.412	\$0.449	\$0.462	\$0.534	\$0.615	\$0.614
14		\$0.316	\$0.347	\$0.347	\$0.490	\$0.550	\$0.555
15		\$0.302	cornail	cornail	\$0.370	cornail	cornail
16		\$0.288	cornail	cornail	\$0.300	cornail	cornail
17		\$0.214	\$0.240	\$0.230	\$0.370	\$0.435	\$0.421
18		\$0.346	\$0.381	\$0.398	\$0.567	\$0.649	\$0.636
19		\$0.291	\$0.319	\$0.310	\$0.450	\$0.510	\$0.542
20		\$0.234	\$0.260	\$0.255	\$0.224	cornail	cornail
21		\$0.278	\$0.310	\$0.315	\$0.402	\$0.467	\$0.442
22		\$0.231	\$0.258	\$0.255	\$0.297	cornail	cornail
23		\$0.235	\$0.262	\$0.262	\$0.333	cornail	cornail
24		\$0.278	\$0.309	\$0.313	\$0.420	\$0.487	\$0.476
25		\$0.285	cornail	cornail	\$0.284	cornail	cornail
26		\$0.257	\$0.284	\$0.281	\$0.204	cornail	cornail
27		\$0.487	\$0.535	\$0.546	\$0.809	\$0.933	\$0.864
28		\$0.227	cornail	cornail	\$0.256	cornail	cornail
29		\$0.266	cornail	cornail	\$0.297	cornail	cornail
30		\$0.296	\$0.326	\$0.413	\$0.479	\$0.543	\$0.449
31		\$0.332	\$0.362	\$0.412	\$0.510	\$0.580	\$0.490
32		\$0.211	\$0.235	\$0.232	\$0.341	\$0.393	\$0.407
33		\$0.209	cornail	cornail	none	none	none
34		\$0.311	\$0.339	\$0.335	\$0.310	cornail	cornail
35		\$0.285	\$0.315	\$0.325	\$0.475	\$0.553	\$0.536
36		\$0.288	\$0.317	\$0.308	\$0.514	\$0.579	\$0.568
37		\$0.437	\$0.479	\$0.501	n.a.	copal	copal
38		\$0.386	\$0.425	\$0.438	n.a.	copal	copal
39		\$0.466	\$0.512	\$0.522	n.a.	copal	copal
40		\$0.388	\$0.438	\$0.446	n.a.	copal	copal
41		\$0.392	\$0.435	\$0.446	n.a.	copal	copal
42		\$0.493	\$0.556	\$0.559	n.a.	copal	copal

ABM/TW/T1-9
Page 1 of 8

ABM/TW-T1-9. Please provide the results in terms of postage per copy at present rates, postage per copy at the rates you propose and percentage increase between present rates and those proposed rates for the publications *studied* by USPS witness Tang in Docket No. C2004-1 and this one.

RESPONSE:

It is not possible at this time to determine how the rates proposed by witness Mitchell in this docket, or for that matter the rates proposed by witness Tang, would affect the 251 publications described by Tang in Docket No. C2004-1. That is because the only mail characteristics information currently available for those publications is that which applied when the data was collected several years ago, prior to Tang's use of that data in her response to POIR No. 2 in Docket No. C2004-1 (filed October 15, 2004).

As I pointed out in my Docket No. C2004-1 surrebuttal testimony (TW et al -RT-2 at 7-10 [Tr 5/1546-49]), many of the publications for which Tang provided data used sacks with very few pieces in them ("skin sacks"). A rate structure that makes mailers pay the actual cost of the sacks they are using would obviously lead to high rate increases for those that put only a few pieces in each sack.

Since May of this year, however, the Postal Service has required that all Periodicals sacks contain at least 24 pieces. This means that all publications that used "skin sacks" when Tang's data was collected must have a different mailing profile today. Not only must such publications be using fewer sacks, but other changes must have happened as well, such as a migration of bundles either to pallets or to sacks with a lower level of presort than the sacks they used to be in. This in turn may have affected entry points, etc.

Under the existing rate design, publications that use sacks would in many cases be required to pay slightly more in postage because of the changes described above. Under a cost based rate design such as that presented by witness Mitchell, many of the same publications would experience postage reductions, in some cases dramatic reductions. Comparisons based on older data are therefore essentially meaningless for the publications most affected by the 24 piece requirement.

I have, nevertheless, applied Mitchell's rates, proposed in this docket, to Tang's C2004-1 publication data, for those of Tang's publications whose average number of pieces per sack was at least 24. That leaves out 42 publications, which because of their high use of skin

sacks would have had to change their mailing practices significantly since Tang's data was collected. The results for the remaining 209 publications are summarized in Table ABM/TW-T1-9.'

The table contains two columns expressing percent rate differential. **One** shows how much the rates proposed by Mitchell would raise or lower the postage for a publication *if* its mail characteristics data were exactly the same as when Tang collected the data. The other shows the percent difference between the postage under Mitchell's proposed rates and the postage under Tang's proposed rates, again assuming no change in mail characteristics. Table rows are sorted according to the percent difference between postage under the Mitchell and Tang proposals.

As can be seen, the main factor that differentiates the impact of the two rate proposals is flats machinability, which is recognized as a cost driver in Mitchell's rates but not in Tang's. The nine publications where the percent difference in postage is greatest are all non-machinable.

In the event that someone might attempt to verify the results presented in Table ABM/TW-T1-9, I need to point out that I have corrected a mistake in witness Tang's "homework assignment" spreadsheet, contained in **LR-L-173** and provided, under protective conditions, in response to a question posed by Chairman Omas at Tang's hearing. Among the 251 publications on which Tang provided data, 37 are identified as nonprofit. A nonprofit publication is entitled to a five percent discount relative to the postage it would have paid as a regular rate publication, except for the advertising pound rates, which by law must be the same for nonprofit and regular rate publications. As can be verified by examining Tang's spreadsheet, her formulas exaggerate considerably the nonprofit discount that most of her 37 nonprofits are entitled to, thereby understating the total postage they would pay. Without correcting this mistake, a comparison with the correctly calculated postage under Mitchell's

¹ Note that even publications with an average in excess of 24 pieces per sack may have had some sacks with fewer than 24 pieces. It is therefore likely that many of the publications in the table that primarily use sacks would do better under Mitchell's proposed rates than the table suggests.

proposal **would** make his rates for nonprofit publications look less favorable relative to hers than they really are.²

² Tang's nonprofit discounts are calculated in column Q (for R2005-1 rates) and W (for her proposed rates) on worksheet 'Summary' in her LR-L-173 spreadsheet. Examining the formulas used will show that she applies the 5% discount to a cost figure which consists of: (1) the piece rates before subtracting any of the piece rate discounts such as the editorial discount; (2) the advertising pound rates; and (3) her proposed container rate.

Table ABM/TW-T1-9: Impact of Mitchell's proposed Periodicals rates, versus current rates and those proposed by Tang, for Tang's publications with more than 24 pages per sack

ID	% Edit	Lb/pc	Freq	Size	Density	Mach	Pos	c per pl	TW	TW Rat	Versus	Pes/
							R2005-1	Tang	TW	R2005-1	Tang	Sack
PIHL48	98%	0.229	6	Large	High	M	12.78	14.31	11.99	-6.18%	16.26%	44.23
PIHL33	62%	0.247	12	Large	High	M	13.00	15.27	12.98	-0.19%	-14.99%	50.58
QHS71	44%	0.080	50	Small	Low	M	40.11	45.36	39.16	-2.31%	-13.67%	88.00
QHS87	83%	0.112	22	Small	Low	M	35.60	39.87	34.68	-2.58%	-13.03%	197.00
QHS68	76%	0.126	22	Small	Low	M	35.74	40.53	35.39	-0.98%	-12.67%	71.60
QHS70	75%	0.123	23	Small	Low	M	36.56	41.10	35.89	-1.82%	1.67%	143.33
QHS86	95%	0.148	26	Small	Low	M	31.64	35.84	32.02	1.21%	10.67%	48.50
PIHM93	54%	0.567	6	Medium	High	M	27.28	30.07	27.12	-0.61%	-9.82%	38.11
PIHM74	59%	0.511	6	Medium	High	M	24.93	27.47	24.82	-0.44%	9.65%	43.99
PILM49	62%	0.595	4	Medium	Low	M	45.95	53.56	48.82	6.26%	18.85%	64.42
L11	61%	0.427	12	Large	High	M	21.00	23.26	21.21	1.02%	8.78%	44.77
QHS82	70%	0.133	48	Small	LOW	M	30.75	41.93	38.25	4.10%	8.77%	62.83
M9	62%	0.418	8	Medium	Low	hi	20.87	23.12	21.19	1.54%	8.35%	45.89
QHS85	43%	0.625	24	Small	Low	M	46.36	51.97	47.75	2.99%	8.13%	39.31
QHS89	47%	0.346	365	Small	Low	M	42.43	18.49	44.56	5.02%	8.12%	41.71
PILM39	75%	0.625	8	Medium	Low	M	46.15	52.06	47.91	3.88%	7.92%	41.14
QHS26	100%	0.099	12	Small	High	M	21.67	23.27	21.54	-0.59%	7.45%	80.52
M10	57%	0.556	6	Medium	Low	M	25.41	27.93	15.91	1.96%	7.23%	45.60
PILM60	100%	0.444	6	Medium	LOW	M	35.09	41.55	38.59	10.00%	7.11%	80.89
QHS64	92%	0.630	22	Small	LOW	M	45.99	54.15	50.77	10.38%	6.26%	29.20
M20	58%	0.544	9	Medium	High	M	24.05	26.46	24.93	3.67%	-5.79%	47.76
L9	57%	0.531	8	Large	High	M	24.74	27.29	25.74	4.04%	5.69%	44.67
PIHL34	77%	0.225	6	Large	High	M	14.91	16.89	15.97	7.17%	-5.41%	45.68
PIHL46	86%	0.232	12	Large	High	M	17.28	19.24	18.27	5.73%	-5.05%	66.15
PIHL19	50%	0.627	12	Large	High	M	28.88	31.84	30.24	4.72%	-5.02%	40.83
PIHL20	54%	0.658	10	Large	High	M	28.67	31.47	29.90	4.27%	-5.00%	35.94
PIHM83	61%	0.251	12	Medium	High	M	21.74	23.97	22.83	5.03%	-4.77%	x2.00
QHS72	40%	1.732	12	Small	Low	M	88.71	100.10	95.47	7.62%	-4.62%	32.50
PILM33	100%	1.128	12	Medium	Low	M	51.57	59.41	56.73	10.01%	-4.50%	35.31
PIHL29	55%	0.544	11	Large	High	M	25.46	28.11	26.89	5.63%	-1.31%	48.23
PIHM88	51%	0.583	9	Medium	High	M	25.40	27.99	26.80	5.51%	-4.25%	41.22
PIHL27	70%	0.906	12	Large	High	NM	34.74	37.80	36.26	4.37%	-4.07%	28.14
PIHL17	55%	0.637	10	Large	High	M	28.36	31.15	29.93	5.54%	-3.91%	32.59
PIHL47	55%	0.659	12	Large	High	M	26.97	29.54	28.44	5.45%	-3.73%	45.78
PIHM95	50%	0.449	6	Medium	High	M	22.70	25.20	24.29	7.02%	-3.61%	53.77
PIHL13	100%	0.660	15	Large	High	M	22.76	24.29	23.51	3.30%	-3.20%	27.19
M19	51%	0.581	9	Medium	High	M	26.13	28.75	27.85	6.58%	-3.14%	48.10
PIHM86	63%	0.251	12	Medium	High	M	27.48	30.19	29.25	6.41%	-3.12%	67.00

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Table ABM/TW-T1-9: Impact of Mitchell's proposed Periodicals rates, versus current rates and those proposed by Tang, for Tang's publications with more than 24 pieces per sack (Continued)

ID	% Edit	Lb/pc	Freq	Size		Each	Postage per piece			TW Rates Versus:		Pcs/ Sack
							R2005-1	Tang	TW	R2005-1	Tang	
S21	35%	0.127	12	Small	High	M	26.08	30.08	30.17	15.69%	0.29%	55.00
S23	42%	0.483	52	Small	High	M	34.09	3x93	39.08	14.62%	0.38%	40.32
P1LM44	52%	0.602	6	Medium	Low	M	30.10	72.90	33.03	9.72%	0.40%	42.23
P1HM76	50%	0.445	12	Medium	High	M	26.93	29.83	29.99	11.35%	0.54%	46.35
P1HL25	64%	0.824	12	Large	High	M	31.60	34.30	34.52	9.23%	0.63%	28.06
P1HL15	49%	0.808	12	Large	High	NM	33.15	36.29	36.53	10.18%	0.67%	36.24
P1HM97	50%	0.498	12	Medium	High	hl	28.02	30.95	31.16	11.21%	0.67%	41.46
QHS80	66%	0.216	12	Small	Low	M	32.42	38.04	38.32	18.19%	0.74%	48.10
P1HL37	78%	0.483	6	Large	High	M	28.80	31.89	32.13	11.58%	0.78%	60.19
P1HM98	78%	1.112	6	Medium	High	M	45.71	51.38	51.79	13.26%	0.80%	39.07
P1HM85	57%	0.319	11	Medium	High	M	36.07	42.12	42.46	17.71%	0.81%	45.46
M8	50%	0.488	10	Medium	Low	M	27.53	30.43	30.69	11.47%	0.85%	24.71
P1LM55	50%	0.401	6	Medium	Low	M	36.44	41.69	42.06	14.18%	0.87%	50.30
M17	50%	0.491	12	Medium	High	hl	29.49	32.67	32.96	11.78%	0.91%	46.46
P1HM82	41%	0.782	26	Medium	High	hl	32.44	35.41	35.75	10.19%	0.96%	36.71
P1LM40	75%	0.238	26	Medium	Low	M	30.42	34.57	34.92	14.78%	1.02%	53.42
P1LM27	51%	0.308	10	Medium	Low	M	36.58	42.56	43.01	17.56%	1.04%	44.90
P1LM35	50%	0.365	6	Medium	Low	M	35.97	40.79	41.25	14.66%	1.12%	41.42
P1LM43	61%	0.489	7	Medium	Low	M	39.56	45.38	45.92	16.08%	1.20%	43.33
L1	55%	0.389	8	Large	Low	hl	34.72	39.23	39.75	14.47%	1.31%	52
S8	59%	0.195	12	Small	Low	M	32.02	37.40	37.90	18.38%	1.33%	51.83
P1HL18	45%	0.358	51	Large	High	M	24.79	27.55	27.95	12.72%	1.42%	39.03
P1LM22	45%	0.503	13	Medium	Low	M	42.33	48.33	49.02	15.80%	1.42%	43.89
P1LM28	59%	0.725	4	Medium	Low	M	41.19	46.69	47.37	15.00%	1.44%	42.21
L2	85%	0.461	6	Large	High	M	29.55	33.08	33.56	13.59%	1.46%	52.30
P1LM23	57%	0.793	12	Medium	Low	M	44.70	50.94	51.72	15.71%	1.53%	32.49
P1HL50	50%	0.473	12	Large	High	M	25.60	28.29	28.75	12.29%	1.62%	34.70
QHS90	63%	0.556	12	Small	Low	M	41.19	47.50	48.31	17.29%	1.71%	39.35
QHS65	59%	0.951	52	Small	Low	M	41.04	47.59	48.85	19.02%	1.78%	38.54
P1HL39	70%	0.829	12	Large	High	M	33.56	36.44	37.11	10.57%	1.83%	29.36
QHS73	100%	0.227	6	Small	Low	M	28.23	33.39	34.00	20.43%	1.84%	47.11
P1HL28	51%	0.583	12	Large	High	M	29.23	32.18	32.77	12.13%	1.85%	43.62
QHS88	50%	0.650	12	Small	Low	M	45.14	52.18	53.18	17.81%	1.92%	34.20
QHS32	83%	1.871	12	Small	High	NM	70.66	82.57	84.18	19.14%	1.94%	24.14
S6	86%	1.221	12	Small	Low	M	51.71	60.82	62.01	19.92%	1.96%	27.61
P1LM57	41%	0.448	6	Medium	Low	M	44.74	52.60	53.65	19.93%	2.01%	41.37
QHS34	100%	0.546	24	Small	High	M	30.69	35.95	36.69	19.56%	2.05%	44.35
M4	40%	0.529	13	Small	Low	M	42.72	48.78	49.81	16.59%	2.10%	41.77
P1HM79	51%	0.396	6	Medium	High	M	25.74	28.91	29.53	14.70%	2.12%	46.54
P1HM63	50%	0.923	12	Medium	High	M	50.37	56.36	57.58	14.31%	2.16%	36.78
S10	97%	0.110	26	Small	Low	M	24.11	28.04	28.68	18.95%	2.30%	64.24
P1HM70	47%	0.894	12	Medium	High	M	43.26	48.10	49.20	13.75%	2.30%	39.56
QHS75	77%	0.453	6	Small	Low	M	36.28	42.39	43.39	19.58%	2.36%	38.96
P1LM59	47%	0.437	12	Medium	Low	M	39.69	45.58	46.61	17.58%	2.40%	42.56

Table ABM/TW-T1-9: impact of Mitchell's proposed Periodicals rates, versus current rates and those proposed by Tang, for Tang's publications with more than 24 pieces per sack (Continued)

ID	% Edit	b/pc	req	Size	Density	Mach	Postage per piece			TW Rates Versus:		Pcs/ Sack
							R2005-1	Tang	TW	R2005-1	Tang	
M7	61%	1.649	4	Medium	Low	M	32.50	35.74	36.60	12.62%	2.42%	32.45
PILM37	68%	1.477	12	Medium	Low	M	37.05	42.58	43.64	17.80%	2.49%	45.69
QHS94	46%	1.387	10	Small	Low	M	37.53	42.93	44.01	17.26%	2.52%	45.54
PIHL24	72%	1.699	6	Large	High	M	30.95	33.95	34.80	12.46%	2.53%	43.63
PIHM99	100%	1.202	6	Medium	High	M	20.42	22.45	23.03	12.79%	2.60%	51.98
QHS29	94%	1.246	4	Small	High	M	22.09	24.72	25.37	14.85%	2.62%	48.30
PIHM72	42%	1.363	12	Medium	High	M	36.38	41.31	42.40	16.56%	2.63%	48.56
S18	100%	1.075	12	Small	High	M	22.57	26.18	27.27	20.80%	2.70%	50.85
PILM21	65%	1.793	6	Medium	Low	M	41.65	46.68	48.01	15.27%	2.84%	37.48
PILM53	70%	1.411	6	Medium	Low	M	33.57	38.10	39.22	16.84%	2.92%	47.69
PIHM77	54%	1.580	12	Medium	High	M	33.08	36.71	37.80	14.26%	2.96%	40.22
PILM30	44%	1.434	13	Medium	Low	M	30.69	34.18	35.23	14.80%	3.07%	43.75
L3	75%	3.470	12	Large	High	M	28.36	31.54	32.52	14.66%	3.10%	41.98
QHS74	84%	1.592	6	Small	Low	M	35.84	41.73	43.04	20.07%	3.13%	38.88
PILM51	47%	1.309	4	Medium	Low	M	35.92	41.41	42.76	19.05%	3.26%	44.98
QHS50	100%	1.320	251	Small	High	M	25.38	28.98	29.93	17.96%	3.30%	54.14
QHS25	44%	1.196	52	Small	High	NM	18.23	20.83	21.5x	18.40%	3.34%	39.54
PILM47	81%	1.297	6	Medium	Low	M	22.38	25.29	26.16	16.90%	3.42%	48.57
QHS69	34%	1.291	12	Small	Low	M	36.15	41.49	42.91	18.68%	3.44%	46.80
PIHM80	72%	1.238	52	Medium	High	M	24.31	27.44	28.40	16.82%	3.49%	41.41
PIHM100	86%	2.309	6	Medium	High	M	66.24	73.75	76.39	15.32%	5.57%	26.17
PILM50	77%	1.628	6	Medium	Low	M	37.65	42.77	44.37	17.85%	3.75%	45.38
QHS42	66%	1.526	10	Small	High	M	35.90	41.44	43.03	19.87%	7.83%	39.83
PIHM66	88%	1.389	12	Medium	High	M	28.25	31.31	33.17	17.25%	3.93%	60.05
QHS54	100%	1.175	36	Small	High	M	20.76	23.32	24.26	16.84%	4.01%	60.21
PIHM91	60%	1.412	12	Medium	High	M	31.05	35.15	36.61	17.93%	4.17%	46.77
PILM48	89%	1.310	4	Medium	Low	M	28.71	33.01	34.39	19.76%	4.18%	51.95
M12	100%	1.574	12	Medium	High	M	28.24	31.64	32.98	16.81%	4.26%	37.63
s7	100%	1.107	6	Small	Low	M	25.68	30.53	31.86	24.08%	4.35%	43.47
QHS67	87%	1.465	6	Small	LOW	M	33.46	39.00	40.70	21.63%	4.36%	40.40
S24	33%	1.200	365	Small	High	NM	43.86	49.42	51.59	17.64%	4.39%	25.23
QHS97	66%	1.274	13	Small	Low	M	32.15	37.05	38.70	20.42%	4.45%	45.53
PIHL43	62%	1.191	51	Large	High	M	23.31	25.87	27.02	15.93%	4.46%	31.28
PIHM84	92%	1.363	6	Medium	High	M	26.94	30.33	31.71	17.66%	4.55%	54.46
QHS83	100%	1.455	4	Small	Low	M	32.75	39.16	40.94	24.87%	4.56%	35.09
QHS47	70%	1.258	11	Small	High	M	27.75	32.36	33.85	21.81%	4.61%	42.86
MIS	51%	1.758	12	Medium	High	M	44.71	49.72	52.03	16.31%	4.63%	28.03
PILM46	50%	1.307	6	Medium	Low	M	34.24	39.36	41.24	20.44%	4.79%	44.83
QHS31	99%	1.770	52	Small	High	M	34.31	39.50	41.46	20.78%	4.96%	46.74
M6	45%	1.195	4	Medium	Low	NM	56.10	62.47	65.65	17.02%	5.09%	32.07
PIHL49	73%	1.200	26	Large	High	M	23.81	26.50	27.85	16.87%	5.09%	81.37
PIHM89	49%	1.358	12	Medium	High	M	34.11	39.03	41.04	20.20%	5.17%	43.60
QHS77	80%	1.188	12	Small	LOW	M	26.44	30.53	32.17	21.67%	5.36%	48.94
QHS96	100%	1.662	12	Small	LOW	M	32.84	38.26	40.33	22.79%	5.39%	38.56

Table ABM/TW-T1-9: Impact of Mitchell's proposed Periodicals rates, versus current rates and those

ID	posed	/ Tan	for	ang's p	blication	with more than 24 pieces pe			ack (Co	inued	Pcs/ Sack	
	% Edit	_b/pc			Density	fach	Postage per pi		TW Rate	/ersus:		
							R2005-1	Tang	TW	2005-1	Tang	
PIHM96	57%	0.339	12	Medium	High	M	28.29	32.09	33.84	19.59%	5.43%	47.41
QHS79	28%	0.120	4	Small	Low	M	33.39	39.25	41.40	24.00%	5.47%	41.24
QHS48	99%	0.672	52	Small	High	M	31.88	36.54	38.55	20.93%	5.49%	49.41
PILM56	81%	0.235	25	Medium	Low	M	27.43	31.44	13.21	21.07%	5.64%	54.01
QHS53	100%	0.520	12	Small	High	M	28.22	12.34	34.17	21.11%	5.67%	59.75
PIHM78	82%	0.623	12	Medium	High	M	17.01	17.21	45.37	22.58%	5.94%	37.90
PIHMh7	85%	0.341	12	Medium	High	NM	24.61	27.74	20.43	19.61%	6.10%	52.03
PIHM62	94%	0.228	52	Medium	High	M	11.0x	26.32	27.97	21.75%	6.28%	49.84
PILM41	80%	0.245	52	Medium	Low	M	29.44	34.24	36.46	23.83%	6.34%	40.74
QHS27	79%	0.242	6	Small	High	M	27.80	32.16	34.23	23.12%	6.45%	47.65
QHS49	63%	0.282	53	Small	High	NM	22.91	26.03	27.71	20.96%	6.45%	36.63
S4	100%	0.357	4	Small	Low	M	28.05	32.74	34.93	24.53%	6.55%	40.97
PILM24	95%	0.154	8	Medium	Low	M	25.06	29.48	31.44	25.46%	6.64%	43.23
PILM29	95%	0.154	8	Medium	Low	M	25.0x	29.48	31.44	25.46%	6.64%	43.23
PILM38	95%	0.154	6	Medium	Low	hi	25.06	29.48	31.44	25.46%	6.64%	43.23
PILM54	95%	0.154	6	Medium	LOW	M	25.06	29.48	31.44	25.46%	6.64%	43.23
QHS55	100%	0.080	26	Small	High	M	17.98	20.45	21.84	21.50%	6.79%	55.24
PILM31	78%	0.245	52	Medium	Low	hi	30.19	35.41	37.86	25.41%	6.91%	36.08
PILM32	100%	0.533	13	Medium	Low	M	31.44	36.60	39.13	24.46%	6.92%	41.42
PIHM81	95%	0.244	6	Medium	High	M	22.23	25.24	27.01	21.48%	6.99%	47.96
S15	97%	0.389	52	Small	Low	M	27.45	31.55	33.75	22.96%	7.00%	49.36
QHS44	61%	0.101	52	Small	High	M	22.67	25.84	17.71	22.24%	7.23%	47.73
PILM58	91%	0.135	20	Medium	Low	M	23.36	27.12	29.13	24.68%	7.43%	48.89
PIHM69	76%	0.309	12	Medium	High	M	27.50	31.55	33.92	23.34%	1.52%	45.16
L7	60%	1.481	12	Large	High	NM	50.63	54.41	58.58	15.76%	7.55%	24.20
M2	96%	0.383	6	Medium	Low	M	28.88	13.42	35.96	24.54%	7.60%	45.59
M13	62%	0.184	12	Medium	High	M	23.41	26.60	28.73	22.73%	8.04%	29.85
S16	41%	0.282	52	Small	High	M	24.38	28.52	31.04	27.32%	8.83%	35.09
PIHM65	100%	0.095	12	Medium	High	M	21.28	24.33	26.55	24.77%	9.11%	59.24
QHS58	100%	0.456	52	Small	High	M	26.51	30.79	33.86	27.57%	9.95%	31.03
QHS57	50%	0.145	52	Small	High	M	23.86	27.87	30.96	29.76%	11.10%	39.57
S19	75%	0.150	52	Small	High	M	19.61	22.57	25.13	28.10%	11.32%	49.04
PIHM75	100%	1.717	13	Medium	High	NM	51.47	58.77	66.33	28.87%	12.87%	34.93
M14	41%	0.980	15	Medium	High	NM	49.77	55.40	62.72	26.03%	13.21%	41.09
S17	98%	0.460	52	Small	Low	M	29.83	35.74	40.56	35.98%	13.48%	27.93
QHS78	99%	1.251	16	Small	Low	NM	46.20	54.13	61.55	33.24%	13.72%	33.05
MI	100%	0.452	13	Medium	Low	NM	29.81	34.51	39.93	33.95%	15.71%	43.89
PIHM64	80%	0.790	12	Medium	High	NM	35.76	40.22	46.54	30.14%	15.71%	38.06
QHS41	100%	0.251	54	Small	High	NM	27.86	33.24	38.67	38.83%	16.36%	24.15
PIHM68	70%	0.611	18	Medium	High	NM	37.02	41.85	48.82	31.90%	16.69%	43.44
PIHM87	61%	0.504	12	Medium	High	NM	36.23	41.02	48.37	33.50%	17.92%	41.76
M11	85%	0.396	12	Medium	High	NM	28.96	32.37	38.72	33.70%	19.63%	57.02
PIHM90	100%	0.383	4	Medium	High	NM	25.50	28.98	35.15	37.84%	21.29%	42.55
QHS66	80%	0.167	53	Small	Low	NM	31.42	36.76	46.22	47.12%	25.73%	98.59

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RESPONSE OF WITNESS HALSTEIN STRALEERG TO INTERROGATORY OF MCGRAW-HILL COMPANIES

MH/TW-T2-1 With respect to your **testimony** at page 36 line 18 through page 3X line 17:

(a) Please confirm that in this case you estimate unit container costs that are some 78% higher, in the case of sacks, than you had estimated in Docket No. C2004-1, and some 69% higher in the case of 5-digit **pallets**. If you do not confirm, please explain fully.

(b) Please confirm that these higher unit container **cost** estimates are largely based on a special "web-based survey" conducted by the Postal Service during this case for the purpose of estimating, for each container **type**, presort level and entry point **type**, the number of facilities that a container will **pass through**. If you do not confirm, please explain fully.

(c) Please explain fully the extent to which **the** special web-based survey may or may not be reliable, in your view, and the extent **to** which you believe it to be statistically valid or invalid.

MH/TW-T2-1

a. Not confirmed. Regarding 5-digit pallets, ~~the~~ percent increase *you* indicate applies to 5-digit pallets entered at the originating SCF. However, relatively few 5-digit pallets are entered at the originating SCF. For 5-digit pallets entered at the **destinating SCF**, for example, my current estimate is 5.87% higher than my C2004-1 estimate. For 5-digit pallets entered at the **destinating ADC** the increase is 56%.

In the case of sacks, the part of my testimony that *you* refer to indicates that the most expensive sack **category** (carrier routes sacks entered at the originating SCF) costs \$6.23 according to my current model. The equivalent cost estimate in my C2004-1 model was \$2.44, which indicates a 155% increase. Note, however, that neither that percentage, nor the one you suggest, applies to all sacks. For example, in the case of mixed ADC sacks entered at the originating SCF (a sack category used extensively by very small publications), the increase is **14.9%**.

b. Use of **the** web-based survey increased the estimated costs of containers entered far from their destination, not **of** dropshipped containers. It is not the only reason for higher costs.

As pointed out in my testimony, at 36, the mail processing TY08 wage rate is 23% higher than the corresponding TY03 rate underlying my C2004-1 estimates. That is one major factor contributing to the generally higher container costs.

Please note also that in this case, as in Docket No. C2004-1, the results I present have been subject to a CRA adjustment, i.e., a comparison with CRA mail processing costs actually attributed to Outside County Periodicals. In this docket, the CRA adjustment indicated that the CRA costs of handling bundles and containers (excluding piece sorting) were 95.1% of my modeled costs. I consequently reduced the modeled costs by a factor of 0.951.

C. The results of the web based survey were provided by the Postal Service, to which inquiries about its reliability would have to be directed. Note, however, as explained in my testimony, at 37-38, that because the Postal Service indicated, in response to a Time Warner interrogatory, that there had been few samples of pallets entered at the originating BMC and those results therefore might not be reliable, I did not use its OBMC estimates

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES**

MH/TW-T2-2. With respect to **your** testimony at page **8** lines 12-16 that "Mr. Glick and I had noticed many of the same problems with the Miller model" and "[o]ur ideas for correcting those problems converge in some cases and differ in others," please specify all **issues** in this case on which **you** have taken an approach that differed from the approach of Mr. Glick, and summarize the differing approaches to each such issue.

MH/TW-T2-2. For a full description of the issues addressed by Mr. Glick and the positions he takes on those Issues, please read his testimony and interrogatory responses in this docket.

While I address issues not addressed by Mr. Glick and vice versa, we both address the following shortcomings in witness Miller's Periodicals flats mail flow model:

- (1) the failure to account for the substantial volume of flats that are **diverted** to manual sorting, even in facilities equipped with machines that could have been used to sort them:
- (2) a too narrowly defined CRA adjustment and
- (3) the failure to recognize flats preparation costs as important for the correct determination of cost differentials between rate categories.

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES

MH/TW-T2-3. With respect to your testimony at page 37 lines 1-5, expressing concern that in your view, the Postal Service in this case is "proposing to weaken and even eliminate some of the existing dropship discounts," please specify each element of the rate design and rates proposed by the Postal Service in this case that in your view weakens or eliminates existing dropship discounts, and specify each element of that rate design and those rates that in your view strengthens or adds to the number of dropship discounts.

MH/TW-T2-3. The Postal Service proposes to eliminate the extra one cent per piece discount for pallets that are dropshipped. That particular discount, introduced in Docket R2001-1, has in my opinion been a major factor in encouraging increased dropshipping by many Periodicals mailers in recent years.

Additionally, the Postal Service is proposing to eliminate the special co-palletization discounts. I don't know how much dropshipping those discounts have generated, but clearly it is some.

On the other hand, the Postal Service is proposing to include in the pound rates some dropship incentives for editorial matter.

Note that I am not opposed to replacing the per-piece based incentives mentioned above with more cost based incentives, such as those proposed by witness Mitchell. Nor am I opposed to the changes proposed for the editorial pound rates.

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES

MH/TW-T2-4 With respect to your testimony at page 31 lines 7-16: (a) Please explain why, in your view, skin sacks would decline from approximately 50 million to 32 million in the 2004-2005 time period; (b) Please explain why, in your view, the volume of Outside-County Periodicals sacks would decline from 84 million to 67 million over the 2004-2005 time period.

MH/TW-T2-4

a. There could be several reasons. The extensive use of skin sacks was in my opinion a bad habit that had developed over many years, sometimes even encouraged by Postal Service officials who could think of no other way to respond to complaints about poor service and whose culture often is not to think about costs, at least not Periodicals costs. In Docket No. C2004-1 the costs that this habit imposed on the Periodicals class were highlighted. As was also pointed out in that docket, the habit of using skin sacks is one that is very easy to change; in fact it can often be changed by changing a single parameter in ~~whatever~~ fulfillment program a publication uses. See Docket No. C2004-1, Surrebuttal Testimony of James O'Brien (TW et al.-RT-1) at 8 (Tr. 5/1432). Additionally, not using skin sacks reduces the costs of mail preparation by the printer.

It is not unreasonable to think that the bad publicity skin sacks received in Docket C2004-1, and the subsequent announcement by the Postal Service that it would prohibit them, may have motivated many mailers to reduce or eliminate their use of skin sacks long before the regulation ~~eliminating~~ skin sacks took effect. That in fact was the case with many of Time Warner's publications.

b. Again, there could be several reasons. One obvious reason is that there appears to have been an increase in the volume that is palletized. Since there is less volume in sacks one would expect fewer sacks. Additionally, the reduction in skin sacks means that there are more pieces per sack and therefore fewer sacks.

As to why palletization has increased, I believe it could be a combination of the pallet discounts in effect since R2001-1, which the Postal Service now proposes to eliminate,

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the copalletization discounts that were added later, also now proposed to **be** eliminated, and increased availability of cornailing and copalletization services **from** printers and consolidators.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES**

MH/TW-T2-5. With respect to your testimony at page 29 lines 20-27, please state whether you calculated container, bundle and piece volumes on a test-year after-rates basis, and if so, please provide the calculations and volumes, and if not, please explain why such after-rates volumes were not estimated and presented in your testimony.

MH/TW-T2-5. My task in this case was to provide test year before rates volume estimates of all relevant categories of pieces, bundles, sacks and pallets, along with unit mail processing costs, which were then used as input to witness Mitchell's **rate** design.

See, however, the responses by myself and witness Mitchell to **POIR 18, filed** October 17.2006.

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES

MH/TW-T2-6. In response to ABM/TW-T1-8, you state that it was not possible to provide rate impact information for Time Warner publications that are co-mailed or copalletized because the printer does not release necessary data to the participants.

(a) Please state whether Time Warner asked its printer(s) of co-mailed or copalletized publications to release the information so that this analysis could be performed and/or asked the other participants in the programs to agree to the release of the information for this purpose.

(b) Since Time Warner is apparently unable to assess the impact of its proposal on even its own co-mailed or co-palletized publications, is it possible for Time Warner to calculate the impact on other co-mailed or co-palletized publications? If so, how?

(c) Please provide any suggestion you might have as to how the Commission can assess the impact of Time Warner's proposed rates on co-mailed and co-palletized publications?

MH/TW-T2-6.

a. Time Warner became aware during Docket No. C2004-1 that it was the policy of printers who offer comailing and/or co-palletizing, in order to protect the confidentiality of their clients, not to release data for mailings that include periodicals from more than one publisher. Early in this docket, Time Warner was informed by another party that had made efforts to secure data (or, alternatively, to arrange for a neutral third party to analyze data] for co-mailed and co-palletized publications, that the policy of the printers had not changed. However, after receiving this interrogatory Time Warner contacted the printer that currently performs all comailing of Time Warner publications, as well as the company that co-palletizes some of its publications, in order to see if some method could be worked out that would protect the privacy of publishers but that would permit an assessment of the impact of proposed rates on comailed and co-palletized publications. The printer is developing the ability to analyze the impact of Time Warner's proposed rates on comailed pools as well as individual members of comailed pools. The co-palletizer is working on developing a similar capability.

b. It is not yet possible for Time Warner to calculate the impact of proposed rates on the comailed or co-palletized publications of other publishers. Time Warner is working with a software developer to be able to simulate the impact of Time Warner's

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proposed rates as well as the Postal Service's proposed rates for any group of publications defined by their address lists, both when the publications are comailed, when they are co-palletized and when they are mailed individually. For the reasons stated in part c below, however, there is no reason to suppose that the impact of Time Warner's proposed rates on comailed and co-palletized publications would be anything but favorable.

c. **Comailing** and copalletization means that publications share some resources. Consequently they will use fewer resources in total than if they were mailed individually. Since Time Warner's proposed rates are based on charging for each resource used by each mailing, it follows that these rates will be favorable for comailed publications. See also my answers to parts a and b above.

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 Item a, part 2 of 2
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RESPONSE OF WITNESS HALSTEIN STRALBERG (TW-T2) TO POIR 18 a (part 2 of 2)

POLR 18 Please refer to Time Warner witness Mitchell's workpaper 'Wp Mitchell-3F-06.xls,' worksheet 'tybr-4.'

(a) Please provide billing determinants and estimates of test year after-rates volumes and revenues for each of the rate categories (existing and new) proposed. Provide them separately for Regular Rate, Nonprofit, and Classroom Periodicals.

Response:

a. In the following I use the term 'former subclass' to refer to either Regular Rate, Nonprofit or Classroom Periodicals. My part in responding to POIR 18 was to develop test year before rates (TYBR) billing determinants for each former subclass, similar to those presented for the Outside County subclass in Exhibit B of my direct testimony (TW-T-2).

As explained in my testimony, the billing determinant volume data presented in my Exhibit B and used in witness Mitchell's workpaper were developed mostly from a series of Excel tables filed by witness Loetscher as part of his responses to interrogatories TW/USPS-T28-1-11. Those tables were developed from the data collection described in LR-L-91.

Information on whether publications were Regular Rate, Nonprofit or Classroom was collected as part of the LR-L-91 effort. However, the relevant tables provided by Loetscher are not broken down by the former subclasses. The billing determinants I provided to Mitchell were developed only for the Outside County subclass. In responding to the POIR 18 request to provide separate billing determinants for the former subclasses, I considered two options:

- (1) Request that the Postal Service provide separate LR-L-91 based tables for each former subclass, similar to the Loetscher tables referred to above. While it is possible that this approach might have given the most accurate results, I could have no certainty about when or whether the data would become available. I was also concerned that the LR-L-91 data might not include

Stralberg Response to POIR 18
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sufficient samples to provide accurate details on Classroom and perhaps **not** even on Nonprofit publications.'

(2) Distribute the piece, bundle, sack and pallet counts already generated for the Outside County subclass among the former subclasses by extrapolating known information, including the Postal Service's FY2005 billing determinants and information from earlier dockets. While this approach necessarily requires a number of assumptions, I ~~concluded~~ it could be carried out in a way that would reflect the most important characteristics that distinguish the former subclasses from one another. ~~Such~~ characteristics include the higher level of presort and higher number of pieces per bundle for nonprofit publications, which would cause them to incur fewer piece related and bundle related charges under the rates proposed by Mitchell.

I have carried out the second approach. The TYBR volumes of pieces, bundles, sacks and pallets, corresponding to those in Exhibit B of my testimony but separate for each former subclass, are presented in a series ~~of~~ tables at the end of this response. They were provided to witness Mitchell, who used them in the new version of his rate design spreadsheet and computed the corresponding after rates volumes. See Mitchell's response to this POIR and library reference TW-LR-5.

The remainder of this response describes the methodology by which I carried out the second approach. The actual calculations are shown in a spreadsheet provided as library reference TW-LR-4.

[†] The relevant Loelscher tables that would have had to be provided in expanded form are the tables numbered 9, 13 and 14 in his responses to TW/USPS-T28-1-11. Loetscher's tables are also broken down by publications circulation size, and that breakdown would not be necessary for the purposes discussed here.

A. Piece Volumes

For each former subclass, I extracted from the Postal Service's FY2005 billing determinants the base year volume (excluding auto letters) in each of the following rate categories

- (1) basic non-auto;
- (2) 3-digit non-auto;
- (3) 5-digit non-auto;
- (4) carrier route;
- (5) basic auto;
- (6) 3-digit auto; and
- (7) 5-digit auto.

For each rate category, I determined the percentage that each former subclass contributes to the Outside County totals.

I then started with a table, generated from Loetscher's table 9 and representing the base year version of Table B3 in my direct testimony, containing base year piece volumes for outside county non-letters. Each cell in that table is associated with exactly one of the seven rate categories listed above. I created three new tables, in similar format, by multiplying each cell in the original table with the percentage that each former subclass contributes to the rate category corresponding to the given cell.

Each of the new tables, representing base year Regular Rate, Nonprofit and Classroom non-letter volumes, was then modified, first by applying the appropriate BY to TYBR volume ratio, then by the transformation described in my testimony to simulate migration due to the 24-piece sack minimum.'

² See TW-T-2 at 29-34 and Ex. B. To carry out the procedure described above I first made small adjustments, as shown in TW LR-4, to the estimates derived from Loetscher's tables so that the Outside County volume with carrier route presort would match exactly that in the billing determinants and so that the volume of each auto presort category would match that in the billing determinants minus the auto letter volumes. The resulting surplus volumes in the three nowauto, non-carrier route categories constitute my estimates of non-auto letter volumes in each subclass, which I also provided to witness Mitchell.

B. Bundle Volumes

In the Time Warner et al. Complaint case (Docket No. C2004-1) I developed estimates of pieces per bundle for each combination of bundle presort level, container type and container presort, based on the Postal Service's R2000-1 mail characteristics survey. I extrapolated those results to include similar estimates for Classroom publications. The results indicated that in almost all cases, the average number of pieces per bundle for Nonprofit publications was significantly higher than the corresponding number for regular rate. This would indicate that in a rate structure that includes per-bundle charges, such as that proposed by witness Mitchell in this docket, nonprofit publications would on the average incur fewer bundle charges for a given number of pieces.

I assumed that a similar relationship would apply today³ To develop a complete estimate of bundle volumes for each of the former subclasses in the current case. I employed the following procedure, for each combination of bundle presort, container type, container presort and former subclass.

First, I developed a preliminary estimate of the number of bundles in each cell by dividing the number of pieces in that cell (as developed by the procedure described in part A above) by the complaint case estimate of pieces per bundle. I then divided the current Outside County estimate of bundles in the given cell by the sum of the preliminary estimates in that cell for the former subclasses. That factor was then applied to adjust the bundle volume estimate for each former subclass, for the given combination of bundle presort, container type and container presort.

C. CONTAINER VOLUMES

My direct testimony describes how I developed a test year profile of the numbers of sacks and pallets, per entry point and container presort level, while maintaining

³ It is likely that Nonprofit publications will always have a higher average number of pieces per bundle, since heavier Regular rate publications often face weight limits on bundle size, and may also face limitations because of the Postal Service's complex regulations meant to reduce the incidence of bundle breakage.

consistency with witness Tang's estimate of the total number of sacks and pallets in the test year.

In order to develop a test year container profile for each of the former subclasses of Outside County Periodicals, I first developed profiles for each subclass of the number of containers by container type and container presort. In a subsequent step I added the breakdown by entry point for each subclass.

To accomplish the first step I made use of the following information:

- (1) estimates of the number of pieces per former subclass, container type and container presort level, as developed in the Complaint case;
- (2) similar estimates for TY08, developed as described in Section A above;
- (3) estimates of the number of sacks and pallets by container presort level and former subclass, as developed in the Complaint case; and
- (4) estimates of the number of TY08 Outside County sacks and pallets by container presort level, developed as described in my direct testimony.

The calculations performed can be seen from the spreadsheet formulas in TW LR-4. The results of this step are shown in the table below.

Table POIR18-1: Estimated Number of Test Year Containers By Subclass					
Type	Presort	Regular Rate	Nonprofit	Classroom	Total
Sacks	MADC	3,804,035	488,157	49,991	4,342,183
	ADC	7,972,972	1,107,074	101,852	9,181,897
	3-D/SCF	21,279,353	2,550,272	266,539	24,096,164
	5-d	3,770,187	819,740	36,467	4,626,394
	5-d CR	1,600,202	499,698	12,227	2,112,127
	CR	1,911,325	389,920	12,256	2,313,500
Pallets	ADC	707,105	71,236	6,136	784,478
	3-D/SCF	2,077,144	249,867	14,576	2,341,587
	5-Digit	548,309	152,251	4,015	704,575

The next step was to develop entry point estimates for each volume in the above table.

I broke this step into two parts. First, for each cell in the table. I estimated the number of containers that are dropshipped (i.e., entered at the DADC or closer) and not dropshipped (entered at the DBMC, OBM, OADC or OSCF). For this purpose I made use of the information on dropshipping of sacks and pallets that **can** be extracted from existing billing determinants.⁴ The details of these calculations are shown in TW LR-4.

Finally, having determined the number of containers of a given type, presort and former subclass that would be dropshipped in the test year, I assumed for the sake of simplicity (lacking more detailed information) that the percent going to each dropship entry (DDU, DSCF or DADC) would be the same for each former subclass as for the combined Outside County subclass. Similarly, for the sacks and pallets that are not dropshipped. I assumed that ~~their~~ distribution between DBMC, OBM, OADC and OSCF entry is the same for each former subclass as for Outside County as a whole.

The tables on the following pages are those I provided to witness Mitchell to enable his response to this POIR

⁴ For example, current billing determinants for **each** subclass indicate the number of pieces receiving the destination pallet discount and (the non-destination pallet discount, from which one can determine the percent of palletized pieces that is dropshipped and nondropshipped. Similarly, the number of pieces receiving the DDU, DSCF or DADC dropship discounts, minus the number of pieces receiving the destination pallet discount, must be the number of pieces in dropshipped sacks, etc. This information is used in combination with the volumes in Exhibit B of my testimony of the total number of dropshipped and nondropshipped sacks and pallets, to estimate how many sacks or pallets at a given presort level and in each subclass are respectively dropshipped or not dropshipped

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Test Year BR Volumes of		by	by	by	teristi
		Regubr	Nonprofit	Classroom	OC total
MADC	NBC/NM	1,663,501	263,608	31,672	1,958,782
	NBUM	14,279,222	2,262,772	271,868	16,813,861
	BCMM	2,573,274	447,815	23,654	3,044,744
	BUM	8,061,484	1,402,904	74,104	9,538,492
ADC	NBCINM	9,173,554	1,453,697	174,659	10,801,910
	NBC/M	38,948,589	6,172,029	741,557	45,862,176
	BC/NM	21,032,501	3,660,191	193,338	24,886,030
	BC/M	102,345,033	17,810,645	940,790	121,096,468
3d	NBUNM	57,527,670	8,640,578	1,786,967	67,955,215
	NBC/M	125,356,363	18,951,778	3,714,418	148,022,558
	BCINM	169,405,605	28,001,877	1,958,454	199,445,936
	BC/M	731,584,545	120,870,091	8,453,667	860,908,303
5d	NBC/NM	73,349,391	17,180,215	1,100,066	91,629,673
	NBUM	124,949,192	28,918,719	1,893,885	155,761,795
	BCINM	346,488,732	70,157,891	2,839,421	419,486,044
	BC/M	1,729,622,559	350,218,229	14,173,988	2,094,014,776
CR	NM	352,438,397	128,315,980	2,669,532	483,423,909
	M	2,520,647,235	917,718,736	19,092,551	3,457,458,523
Firm	NM	4,203,641	666,134	80,035	4,949,810
	M	12,852,074	2,036,617	244,696	15,133,387
Total Flats:		6,446,582,563	1,725,150,508	60,459,321	8,232,192,392

Estimated Test Year BR Non- Auto Letters By Subclass				
Presort	Regular	Nonprofit	Classroom	Total:
Basic:	13,069,766	2,133,670	256,304	15,459,740
3-D	4,435,286	678,867	152,705	5,266,858
5-D	7,015,330	1,753,119	96,843	8,865,292
Total:	24,520,382	4,565,656	505,852	29,591,890

Adjusted TYBR Counts of Nonprofit Bundles Per Bundle & Container Presort Level

Bundle	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit	Bundles
Presort										
MADC	2,994,825	6,985,967	33,787,878	4,753,889			350,099	7,178,275		2,994,825
ADC	7,122,094	16,255,916	36,926,970				10,157,622	83,226,882		14,458,159
3-D	6,476,870	5,634,374	4,643,684				30,246,190	196,423,505	763,175	73,856,560
5-D	1,972,294						11,015,975		28,468,968	163,523,773
CR							787,364	168,039	1,757	250,347,547
Firm	6,146,471	4,852,808	4,430,056	228,585	638,994	3,019,697	52,557,250			17,254,072
Total	24,712,552	33,729,064	79,788,588	4,982,474	7,414,711	3,019,697	286,996,701		29,233,900	522,434,936

Adjusted TYBR Counts of Nonprofit Bundles Per Bundle & Container Presort Level

Bundle	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit	Total Bundles
Presort										
MADC	337,833	767,793	3,353,025	659,689			34,802	1,455,613		337,833
ADC	1,165,213	2,558,742	4,843,252				1,201,980	11,899,231		1,967,808
3-D	986,095	1,106,249	1,023,518				3,955,166	40,961,060	97,219	9,555,457
5-D	522,273						3,029,682		8,071,793	23,083,079
CR							124,770	26,628	278	55,481,898
Firm	974,007	769,005	702,013	36,223	101,259	517,937	8,346,401			2,734,185
Total	3,985,421	5,201,790	9,921,808	695,912	1,979,167	517,937	54,342,533		8,169,290	93,160,260

Adjusted TYBR Counts of Classroom Bundles Per Bundle & Container Presort Level

Bundle	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit	Total Bundles
Presort										
MADC	44,705	78,263	475,263	43,941			4,613	107,889		44,705
ADC	87,353	237,993	344,212				134,800	687,710		170,229
3-D	90,893	59,287	31,031				228,102	1,277,806	6,633	1,046,838
5-D	23,457						74,552		206,199	1,373,342
CR							14,991	3,199	33	1,657,620
Firm	117,025	92,394	84,346	4,352	12,166	18,109	457,058	2,056,604	212,865	328,507
Total	363,433	467,938	934,852	48,293	62,089	18,109	2,056,604			4,621,241

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Regular Rate Sack & Pallet Counts By Entry Point & Container Presort (TY08 BR)								
Container		Entry Point						
Type	Presort	DDU	DSCF	OADC	DBMC	OBMC	OADC	OSCF/OAO
Sacks	MADC				8.113	271.616	1,870,524	1,653,783
	ADC			820,322	56,825	1,747,863	2,973,719	3,455,682
	3-D/SCF		3,533,942	1,235,072	56,821	747,863	7,538,914	7,166,741
	5-d	142,925	1,414,128	428,603	12,186	83,409	1,147,291	541,645
	5-d CR	20,375	609,332	76,007	4,495	278,669	257,366	353,957
	CR	77,842	1,072,088	284,765	6,746	112,218	224,394	133,271
Pallets	ADC			353,828	4,608	4,253	173,969	170,447
	3-D/SCF		1,394,581	262,380	11,804	7,849	207,185	193,345
	5-Digit	1,876	489,621	37,972	565	84		8,457

Nonpri Sack & Pallet Counts By Entry Point & Container Presort (TY08 BR)								
Container		Entry Point						
Type	Presort	ODU	DSCF	DADC	DBMC	OBMC	OADC	OSCF/OAO
Sacks	MADC				1,041	34,855	240,037	212,223
	ADC			71,892	1,574	103,100	430,378	500,131
	3-D/SCF		140,997	49,277	8,122	249,841	1,077,617	1,024,419
	5-d	20,804	205,835	62,386	3,624	24,806	341,202	161,084
	5-d CR	5,039	150,689	18,797	1,634	101,305	93,560	128,674
	CR	13,962	192,294	51,076	1,877	31,217	62,421	37,073
Pallets	ADC			27,939	565	521	21,321	20,890
	3-D/SCF		164,114	30,877	1,542	1,025	27,059	25,251
	5-Digit	497	129,690	10,058	360	54	6,203	5,389

Classroom Sack & Pallet Counts By Entry Point & Container Presort (TY08 BR)								
Container		Entry Point						
Type	Presort	DDU	DSCF	DADC	OBMC	OBMC	OADC	OSCF/OAO
Sacks	MADC				107	3,569	24,581	21,733
	ADC			1,149	153	10,029	41,867	42,340
	3-D/SCF		5,733	2,004	234	27,398	118,174	110,418
	5-d	154		462	59	1,604	22,068	4,611
	5-d CR	17	497	62		3,630		
	CR	48	662	176	161	2,677	5,353	3,179
Pallets	ADC			2,251	51	47	1,913	1,875
	3-D/SCF		8,954	1,685	111	74	1,941	1,812
	5-Digit	10	2,559	198	37	6	645	560

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-1. . Please refer to your Autobiographical Sketch at page 2, lines 16 to 21, where **you** discuss **your** visits to Postal Service mail processing facilities. Please indicate the postal field observations that **you** have conducted over the past five years, including the facility observed, the operations observed, and the approximate date in which the observations were made.

USPS/TW-T2-1. My most recent visit to a Postal Service mail processing facility was in September 2005, to the Carol Stream IL plant. The main purpose was to observe bundle sorting operations, particularly the use of the APPS machine in that facility.

In February 2004 I visited the Morgan P&DC in New York. I mostly observed Tour ■ flats processing and the 035 mail prep operation.

In February 2003 I visited four mail processing plants as member of a joint USPS/Industry team to evaluate the feasibility of the concept of "node-based presort." The facilities visited were the DV Daniels NJ. Queens NY and Carol Stream IL ADC's and the Palatine IL SCF. Operations observed included AFSM-100. UFSM-1000 and manual flats sorting operations as well as mechanized and manual bundle sorting and bundle prep operations.

Prior to that, my records indicate that I visited the Santa Ana CA processing facility in June 2001 and the Long Beach CA facility in May 2001. Both visits focused on flats operations, particularly the AFSM-100.

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
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USPS/TW-T2-2. Please refer to page 11 of your testimony, where you discuss the 035 operation.

(a) On lines 8 to 9, you state, "But according to my calculations, only about 37.2% of Outside County flats encounter the 035 pool." Please explain your derivation of this estimate.

(b) On lines 12 to 13, you state, "Under this approach, very little of the 035 costs are attributed to carrier route presorted flats, since few of them encounter the 035 operation." Please estimate the percentage of carrier route flats that incur 035 costs in your model and explain the derivation of your estimate.

(c) On lines 13 to 15, you state, "Also, few non-machinable flats are likely to incur 035 costs, which helps reduce the cost differential between machinable and non-machinable flats." Please estimate the percentage of non-machinable flats that incur 035 costs in your model and explain the derivation of your estimate.

USPS/TW-T2-2.

a. The formula that calculates the average percent of Outside County flats encountering the 035 pool is in cell 'CRA ADJ UNIT COSTS'!O24 in spreadsheet **FlatsModel.xls** in TW LR-2. It is a weighted average of the percentages calculated for the seven presort/auto rate categories. Those estimates are in cells O17:O23 on the same worksheet. They are obtained from the worksheets containing the "model" for each rate category. For example, worksheet '5D NONAUTO MODEL' provides the information regarding 5-digit nonauto flats, etc.

Each of these seven model worksheets represents the flow of 10,000 pieces in the given rate category through AFSM-100, UFSM-1000 and manual flats sorting operations. On each sheet, cell R48 represents the number of pieces (out of 10,000) that are first sent to an AFSM-100 machine. Cell S48 similarly represents the number of pieces sent first to a UFSM-1000 machine and cell T48 the pieces that go directly to manual sorting. As explained in my testimony, I assume that only the pieces that are to be sorted on a machine will be subject to flats preparation. Dividing the sum of cells R48 and S48 on a given model worksheet by 10,000 gives the fraction of that rate category that receives 035 type preparation.

b. 1.68%. as shown in cell '**CRA ADJ UNIT COSTS'****!O20** in spreadsheet FlatsModel.xls in TW LR-2. See part a of this interrogatory for an explanation of the methodology used.

c. I did not need to determine this percentage for the purposes of my testimony. However, it **is** easy to develop such an estimate using the same technique and assumptions as those described in part a above for all flats. I get an average of **18.74%**. Note, however, that for non-machinable flats with 3-digit or basic presort, the percentage is much higher. My estimate is based on the assumption that **non-**machinable flats will incur 035 costs *if* and only if they are sent to **a UFSM-1000** machine for sorting, whether or not they are subsequently diverted to a manual sorting operation.

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USPS/TW-T2-3. In your testimony from page 9, line 21, to page 10, line 3, you state, "The equivalent operation to the part of the 035 that involves removal of bundling material is typically performed by a manual sorting clerk and is incorporated in the recorded productivity rates for manual flat sorting."

(a) Assuming that your statement is true, please confirm that the manual flat sorting productivity figures would contain some costs (e.g., bundle opening costs) that would be incurred by flats that are only sorted manually, but which would not be incurred by flats that are processed in manual operations after being rejected by flat sorting machines. If you do not confirm, please explain.

(b) Did you make any attempt to modify the manual flat sorting productivity figures used to sort flat sorting machine rejects? If not, why not?

USPS/TW-T2-3.

a. Absent an actual study of this matter. I think it is better to not draw any conclusion as to whether ~~what~~ you suggest is true or not. Furthermore, I tend to believe the Postal Service has performed no such study.

Let me try to rephrase what I believe you are asking. Given: (1) bundled flats, still wrapped in the mailer prepared bundling material; and (2) miscellaneous loose flats in a flats tub from an AFSM-100 reject bin, which group of flats would a manual sorting clerk find easiest to sort?

In fact, one can make arguments both ways. On the one hand, when the sorting clerk picks up a mailer prepared flats bundle, he must of course remove the bundling material, or at least some of it, before he can start to distribute the individual flats. But once he has done that, he has a handful of flats of identical size and shape, with identical orientation and address labels that are in the same position on each flat. The flats may even be in ZIP code sequence which would further facilitate sorting them.

When the same clerk picks **up** a handful of flats from the tub that came from the reject bin, he does not have any bundling material to remove. But the flats he is holding in his hand are likely to be of different sizes and thicknesses, making them more difficult to handle, and have address labels in different positions and with different orientations,

USPS/TW-T2-3

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making them more difficult to distribute, as he may need to reorient individual flats in order to read the addresses

The question of which is fastest overall is somewhat similar to the question discussed in my response to USPS/TW-T2-4, namely whether bundled carrier route sorted flats are faster or slower for a carrier to sequence than unbundled flats that have come from previous sorting operations. In that case, IOCS data have repeatedly shown that the bundled flats are faster to sort. While withholding final judgment, I am inclined to believe the same may be true at upstream manual flats sorting operations.

b. No, because there does not appear to exist any empirical data on which to base such an adjustment, and because I tend to believe that the cost differential might just as well swing in the opposite direction from what your question appears to suggest.

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USPS/TW-T2-4. In your testimony on page 9, lines 12 to 14, you describe tasks associated with operation 035. On lines 18 to 19 of that same page you state, "Carrier route bundles and bundles of flats that will be sorted manually bypass that operation."

(a) Please confirm that the costs for some "prep" tasks that you described for non-carrier route flats would be incurred for carrier route presort flats when those bundles are processed by carriers at delivery units. If you do not confirm, please explain.

(b) Please confirm that the test year aggregate carrier wage rate ~~is~~ higher than the test year "other mail processing" wage rate for clerks/mailhandlers. **If** you do not confirm, please explain.

USPS/TW-T2-4

a. I can confirm that it is my understanding that **carrier** route flats bundles are broken by carriers, not by mail processing personnel. In fact, this is also stated in footnote 6 in my testimony.

b. I think that depends on whether by "**carrier**" you refer to city carriers only, or whether you also include rural carriers. In any case, this is completely irrelevant to the question of how one should allocate mail processing costs among different categories of flats. The Periodicals rate design presented by witness Tang, and the alternative rate designs presented in this docket by witnesses Mitchell (TW-T-1) and Glick (MPA-T-2). all apportion mail processing costs among rate elements based on mail flow model results, while they rely on IOCS and carrier data to apportion delivery costs.

For example, in this docket, Tang's rate design uses per-piece delivery **costs** of 7.077 cents per piece for non-saturation carrier route presorted flats and **9.259** cents per piece for non-carrier route flats. She obtains those costs from witness Kelly. The cost differential. as I understand it, is based on IOCS Segment 6 costs for carrier route and other flats. Note that the carrier route costs include the **costs** of breaking bundles but are still lower overall. This has consistently been the case for many years. In other words. despite the extra time it takes to remove the bundling material on carrier route bundles, sequencing them in the carrier's case is still faster overall. I believe some of the reasons for this may be similar to those I described in my response to the preceding

interrogatory with regard to sorting in upstream operations. Another factor is that flats in carrier route bundles are required to be in carrier walk sequence, which makes sequencing them faster.'

¹ There may be yet another reason, which I became aware of some years ago when observing carrier operations at a DDU. A carrier told me that after sequencing the same flats week after week and month after month, he ended up remembering ~~who~~ on his route were receiving different magazines, so that when ~~for~~ example distributing a bundle of Time magazine he would know even before looking at the addresses where each copy should go.

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USPS/TW-T2-5. In your testimony on pages 10 and 11 you propose a method "to distribute flats preparation costs in the 035 cost pool among rate categories."

(a) Please refer to witness McCrery's testimony, USPS-T-42, page 16, lines 28- 31, where he makes the following statement concerning the Automation Induction (AI) modification to the AFSM100: "Thus, it is anticipated that a total of 351 operation AFSM 100s will be retrofitted with the AI system. Deployment of Phase 2 is anticipated to begin in January 2007 and end in August 2007." Please also refer to his testimony on page 15, lines 8 to 9, where he states in reference to the AFSM 100, "Currently, there are 534 machines in use." Please confirm that by TY 2008, 66 percent of the AFSM100s (351/534) will have been retrofitted with the AI system. If you do not confirm, please explain.

(b) Please refer to Docket No. R2005-1, USPS-LR-K-45, pages 11 to 16, which describe the AI system. Please also refer to witness Miller's testimony in Docket No. R2005-1, USPS-T-19, page 5, lines 12 to 14, where he states, "The AI system involves the relocation of the flats mail prep operation (operation 035) to an area directly adjacent to the AFSM100. Flat mail will be unbundled and loaded into containers that will be placed on conveyors, which will route the mail to one of three feed modules. The AI system will not impact the AFSM100 staffing requirement, but will result in reductions in clerk work hours, as all employees will be mail handlers. Furthermore, reductions in operation 035 work hours are expected." Did you attempt to make any adjustment to the FLATPRP cost pool to reflect 035 work hour reductions due to AI modifications? If not, why not?

USPS/TW-T2-5.

a. I confirm your quote to McCrery's testimony and that 351/534 is approximately 66 percent.

b. Let me first point out that the fact that part of the 035 operation is being moved closer to the AFSM-100 confirms the conclusion I presented in my testimony, namely that the 035 costs are being incurred to facilitate the loading of flats into the flats sorting machines, that the operation would not exist if all flats were being sorted manually, and that these costs therefore should be attributed to the flats that receive machine sorting, not to the flats that are sorted manually or bypass sorting altogether. It is therefore inappropriate to characterize such costs as "fixed," as witness Miller does, since the costs are very much affected by presorting as well as by flats machinability.

Second, according to LR-L-49, the FY06 and FY07 cost reductions expected from AI deployment add up to \$80.516 million. But the base year cost of the 035 operation.

according to Van-Ty-Smith's testimony, is \$254.106 million (USPS costing, not including piggyback costs). So even if all the AI related savings are applied to the 035 pool, most of those costs will still remain. Additionally, it is my understanding that some flats preparation costs are incurred not in the 035 cost pool but various other pools, such as opening units. And some AI related reductions in mail processing personnel costs are likely to be offset by higher piggyback costs (e.g., maintenance costs, capital costs) when the strictly manual 035 operation is replaced by a very high-tech operation such as the AI system.

Third, while witness Miller may have testified that the AI will not affect AFSM-100 staffing requirements, which would imply that all the cost reductions will be to 035 costs, that is not consistent with the description in LR-K-45, to which you refer. In fact, page 15 of that document describes reductions in AFSM-100 staffing requirements as well as savings in flats preparation costs. This must mean that only a portion and not all of the \$80 million cost reductions referred to above will be applied to the flats preparation pool.

Finally, with regard to the magnitude of the flats preparation costs in the test year, I simply used the Postal Service's (witness Smith's) estimate. The Postal Service's estimates of test year costs per cost pool are presumably adjusted for projected cost reductions as well as inflationary effects. If the Postal Service has a better estimate of what flats preparation costs for Periodicals flats will be in the test year, it should have presented that estimate in its filing, rather than the one actually presented by witness Smith.'

¹ I understand that the Postal Service's roll-forward methodology may not always assign savings expected from a given cost reduction initiative precisely in the right proportion to the pools where the savings actually will occur. But the fact is that the Postal Service's filing in this case includes many different initiatives that if successful will reduce the costs in many different pools.' In the absence of any more specific information, I believe it is most appropriate to use the forecasted test year costs in each pool for the purpose of distributing mail processing costs among rate categories.

It is possible that the process of assigning test year costs per cost pool has credited to other pools savings (related to AI deployment) that in fact will occur in the 035 pool. But it is equally possible that parts of the savings from other initiatives, that will reduce the costs in other pools, may have been credited to the flats preparation pool.

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USPS/TW-T2-6. In your testimony on page 12, lines 15 to 17, you state, "Yet [witness] McCrery confirms that, in reality, about 44.7% of all non-carrier route flats are sorted manually in the incoming secondary."

(a) Have you evaluated the empirical basis for that estimate? If you have, please discuss your understanding of the empirical basis for the estimate.

(b) Please confirm that the estimate represents some non-carrier-route flats mail types, such as First-class Mail single-piece flats and Periodicals In-County flats, which are not modeled in USPS-LR-L-43. If you do not confirm, please explain.

USPS/TW-T2-6

a. The empirical basis for the 44.7% estimate was given by McCrery in his response to MPA/USPS-T42-1:

"In FY 2005, 44.7% of incoming secondary flats were finalized in manual operations in the field. The percentage is derived from flat volume of 13,188,243,000 pieces that received manual incoming secondary distribution in the field out of 29,501,658,000 total incoming secondary flat volumes. Source: MODS and FLASH reports."

In other words, MODS and the FLASH reports quoted by McCrery are the empirical basis for his answer. I don't know in which sense you would have expected me to "evaluate" this empirical basis, but I can offer the following, which might at least be seen as a test of reasonableness.

Assume that it is true that there were 29.5 billion flats requiring incoming secondary flats sorting in FY2005. According to the MODS data provided by witness Bozzo, the counts of total pieces handled (TPH) at AFMS-100 and UFSM incoming secondary and box section operations totaled 16.269 billion. Subtracting that from 29.502 billion gives 13.233 billion, or a little more than the 13.188 billion McCrery says were finalized manually.'

¹ See Response of United States Postal Service Witness Bozzo to interrogatory of Time Warner Inc. (Tw/Usps-T11-1b-c), Redirected from Witness Van-Ty-Smith (June 15, 2006).

I am not really familiar with the **FLASH** reports, but I understand they provide the Postal Service with a way of assessing volumes processed in its delivery units as well as the plants. Since I do not have the **FLASH** report data I obviously cannot 'evaluate' it.

The other part of McCrery's answer for which one might seek independent verification is whether there really were 29.5 billion flats receiving incoming secondary sorting in FY2005. The Standard model in LR-L-43 shows a little over 14 billion Standard regular flats. The remaining 15 billion must then come from all other subclasses combined. I find this reasonable, but I obviously cannot provide a complete verification.

It is my understanding that McCrery's estimate refers to all flats that receive incoming secondary sorting, whether or not those flats are modeled in LR-L-43. However, the dominant flats category is Standard flats. As mentioned above, there are a little over 14 billion non-carrier route Standard flats, all of which do require incoming secondary flats sorting. Standard flats are less likely than Periodicals flats to be sent to manual incoming secondary sorting because (1) they are more likely to be machinable, and (2) there is not the same service issue which often causes Periodicals and First Class flats to be sent to manual sorting. If Standard flats cannot be machine sorted on the night they arrive, due to time or capacity constraints, they will simply be held till the following day and sorted then, while Periodicals flats in the same situation are more likely to be sorted manually.

I have performed a further test to verify the reasonableness of my assumptions. Let us assume again that, as McCrery indicates, there were 29.5 billion flats requiring incoming secondary sorting in FY2005. From the FY2005 billing determinants, there were 4.527 billion non-carrier route Periodicals. Subtracting the roughly 100 million that were letter shaped, I estimated that Periodicals flats must be about 15.24% of all the flats that require incoming secondary distribution. Assuming some breakage of carrier route bundles, the percentage could be a little larger.

If it could be shown that about 15 or 16 percent of the flats receiving incoming secondary sorting on AFSM or UFSM machines are Periodicals, then it would mean that Periodicals are about as likely as average flats to be machine sorted in the

incoming secondary. It would also mean that they have an average chance of being diverted to manual sorting. i.e., about **44.7%** according to McCrery. if, on the other hand, fewer than 15% of AFSM/UFSM sorted flats are Periodicals, that would mean Periodicals flats are more likely than the average (i.e., more than 44.7%) to be manually sorted.

As a rough test I obtained a count of those direct IOCS tallies in the AFSM cost pool whose MODS numbers correspond to incoming secondary or box section operations. Table 1 shows the count of these tallies by subclass.

Table 1: AFSM Incoming Secondary Tallies By Subclass		
Subclass	FY2005 tallies	Percent
Return receipt	1	0.04%
First Class	690	29.75%
Periodicals	343	14.79%
Standard ECR	49	2.11%
Standard Regular	1162	50.11%
International	5	0.22%
Priority	13	0.56%
Parcel Post	5	0.22%
Media mail	2	0.09%
BPM	19	0.82%
USPS	28	1.21%
Free for the blind	2	0.09%
Total	2319	100.00%

If there is a direct correspondence between direct tallies and volume sorted, then the table would indicate that there were slightly fewer Periodicals flats sorted on the machines than expected based on Periodicals' share of the total flats volume. In other words, slightly more than **44.7%** of Periodicals flats receive manual incoming secondary.²

In reality, however, productivity rates are not the same for all flats. If Periodicals flats, due to their higher weight, are sorted with lower productivity, as I tend to assume, then

² I performed a similar test for incoming secondary sorting on the UFSM-1000 machines. In that case, Periodicals accounted for 17.3% of the direct tallies. But given that less than one billion flats received incoming secondary on UFSM-1000 machines, versus over 15 billion of AFSM-100, it remains true that Periodicals flats receive less incoming secondary machine sorting than their volume would indicate.

fewer Periodicals flats would have been sorted by machine, and therefore more by hand, than the percentages in the above table indicate.

In any case, it is clear that Periodicals flats are at least as likely as the average flat to receive manual incoming secondary sorting. i.e., at least **44.7%**.

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USPS/TW-T2-7. In your testimony on page 13, lines 15 to 18, you state, "For each flat that would be flowed, based on all the model's other decision rules, to an incoming secondary sorting by a machine, I assume that it has an 85% change of actually being machine sorted, while the remaining 15% will be manually sorted." Refer also to your testimony on lines 23 and 24 of that page. Please confirm that the sole reason you set the figures at those levels was in order to achieve a model result in which the percentage of non-carrier route flats receiving manual incoming secondary sorts would be 40%, rather than the lower figure in witness Miller's model. If you do not confirm, please provide all other reasons why you set the figures at those levels.

USPS/TW-T2-7. I arranged the model in such a way that the 85% figure can readily be changed. The Commission may for example conclude that it believes the Postal Service will be able to reduce the percent of Periodicals flats that receive manual incoming secondary sort further, in which case it can adjust the 85% accordingly. Note, however, that even if the percentage is set to 100, my model will show 29.9% of incoming flats secondary sorting being done manually. Furthermore, 100% is not a realistic assumption, because a certain portion of flats go to low-volume zones with only a few carrier routes and for such zones incoming secondary is always done manually.

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USPS/TW-T2-8. In your testimony on page 13, lines 15 to 18, you state, "For each flat that would be flowed, based on all the model's other decision rules, to an incoming secondary sorting by a machine, I assume that it has an 85% change of actually being machine sorted, while the remaining 15% will be manually sorted."

(a) Please confirm that witness Miller discussed the reasons why his model did not include incoming secondary factors in his responses to MPA/USPS-T20-1(e), MPA/USPS-T20-5, and TW/USPS-T20-11. If you do not confirm, please explain.

(b) Did you make an attempt to analyze whether the reasons provided by witness Miller in his responses to the interrogatories mentioned in part (a) were valid or invalid? If so, please provide that analysis and discuss your conclusions. If not, why not?

USPS/TW-T2-8.

a. Confirmed

b. Yes, I did analyze Miller's 'reasons.' expressed in various interrogatory responses. Miller makes the case that his R2001-1 model was in need of updating, that mail processing flows are more **complex** than before and that he did not have perfect data. But he does not, in my opinion, provide any justification for the modeling approach he chose in this docket. namely to pretend that Periodicals flats are always sorted by machine, subject only to coverage constraints. With the modeling assumptions he chose, his Standard model shows 85% of Standard regular (Non-ECR) flats and 80% of Periodicals non-carrier route flats being finalized by machine in the incoming secondary sort. Response to TW/USPS-T20-10: Tr. 281. That would only be possible if no flats were ever diverted to manual sorting due to capacity limits or service concerns. and if the facilities that have flats sorting machines always used them to sort to even very small zones with just a few carrier routes. That is not a realistic scenario.

Given a modeling task where the available data are not perfect (they hardly ever are), someone charged with producing a mail flow model to be used as a guide for rate setting still has an obligation to **strive** to find the best solution possible with the available data. The Postal Service witnesses who produce such models always rely on some unverified assumptions and on some old data that are unlikely to remain completely

accurate. In this case, Miller's stumbling block appears to have been that although he knew many flats are sorted manually that in theory could have been sorted by machine, he did not know the exact percentage that applies to Periodicals flats, nor the precise percentage that applies to Standard. He chose not to even try to produce an accurate model, assuming instead all such flats are sorted by machine. even though that is impossible.

In his response to MPA/USPS-T20-1(e), Miller cited four reasons, some of which he elaborated on in the later responses you refer to. to justify his modeling approach in this docket, particularly the elimination of any 'incoming secondary factors." Witness Glick (MPA-T-2) has offered comments on the same four "reasons" in response to a similar interrogatory. While I generally concur with Glick's responses, some additional comments are offered below.

Reason 1: Miller "did not have sufficient data." From his later comments it appears that what he means is that he did **not** know the precise percentage of Periodicals flats that receive manual incoming secondary. When confronted with the 44.7% average for all flats that had been calculated by McCrery, Miller argued that he could not use that information since he did **not** know the percentage that would apply to Periodicals.

But what Miller seems to be saying is that knowing the average was 44.7% for all flats, **but** not having any class specific information. he chose to believe **it** was 20% for Periodicals flats and 15% for Standard regular, the two categories that together make up almost two thirds of the total non-carrier flats volume.

It would have made more sense for Miller, lacking any other information, to assume that the system wide average of **44.7%** applied to each class.¹ That, after all, is the type of assumption he, and other witnesses, make about many other data that are available only on an aggregate basis. For example, his model includes machine reject rates that are averages over all flats. It is unlikely that those rates are the same for all types of

¹ Or, Miller would have assumed a somewhat lower figure. as I did. reflecting a belief that the Postal Service, in the test year, will have managed to increase the volume of flats it sorts by machine.

flats or for all classes of flats. Similarly, the MODS based productivity rates he uses for AFSM-100. UFSM-1000, manual flats sorting, **SPBS** and APPS bundle sorting are all aggregate measures that may not be accurate for any particular class.² For example, it is quite likely that the generally lighter Standard flats are sorted with greater average productivity than the heavier Periodicals flats. Yet only when it comes to the question of how many flats are diverted to manual sorting does the lack of class specific information seem to inhibit Mr. Miller.

Reason 2: The data "could not be accurately applied." Miller appears to be saying that even if he had all the class specific information he says he needs, building a model that reflects it is just too complicated. For example, he mentions the fact that the strategy for use of the UFSM 'has evolved' as a complicating factor.

It certainly is true that the **flow** of flats mail through the postal system has become more and more complex, with an increasing number of possible flow-paths and technological options. The **UFSM**, in particular, has undergone several transformations since Docket No. R2001-1. Today it is used mostly as a backup to the AFSM-100, processing flats that could have been sorted on the faster machine, but it also incorporates a manual feed/manual keying option for non-machinable flats.

This increased complexity represents a greater challenge to the model builder, but is no reason not to try to build an **accurate model**. My testimony describes a number of changes I made to Miller's model, including the treatment of the UFSM-1000 machines, to make the model correspond more closely to the way flats actually are processed in postal facilities.

² MODS provides no class specific information. That sorting productivity tends to be lower for heavier flats is certainly true in manual operations, where the extra thickness fills up the flats cases more quickly, requiring more frequent 'sweeps' of those cases. I have also been told by AFSM-100 supervisors that when large numbers of heavier flats (e.g., Periodicals) are being loaded into the machines, productivity tends to go down.

Reason 3: "Such factors were affected by issues unrelated to mailer pre-barcodina and presorting efforts (e.g., whether or not a given ZIP Code was processed on automation/mechanization)."

This argument frankly makes no sense. The Postal Service's system of facilities and equipment, along with its procedures for using those assets (e.g., to how many ZIP codes sorting is done **by** machine) define the environment that determines the costs of different types of mail. Were the Postal Service to devote all its machine resources to other mail classes, while sorting Periodical flats manually, it would greatly affect Periodicals costs as measured **by** existing costing systems. The purpose Miller's model was supposed to serve was to determine the costs different rate categories of flats would incur under the operating environment expected to exist in the test year.

Reason 4: "They did not have a significant impact on a pre-barcodina and/or presorting cost differences **by** rate category, which was the **purpose** for which **my** cost models were developed."

This argument is patently false, as shown by Glick in his response, and I see no need to address it any further.

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USPS/TW-T2-9. In your testimony on page 20, lines 5 to 6, you state, "For manual sorting of bundles on pallets, the pallet is stationary, i.e., there is no pallet dumping." Please confirm that some manual operations consist of employees manually sorting bundles from conveyor belts, onto which containers, including pallets, have been dumped. If you do not confirm, please explain.

USPS/TW-T2-9. I agree that what you describe may happen. I don't think it is typical and I tried to model what typically happens. It has been my impression that when it comes to sorting of carrier route bundles off of 5-digit pallets, which typically happens at the DDU, the sorting is always done directly from the pallet. It makes sense to do so, because many mailers place the bundles on the pallet in carrier route order which makes the distribution to individual carriers easier.

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USPS/TW-T2-10 Please quantify the impact that your FLATPRP cost pool modification, discussed on pages 9 to 11 of your testimony, had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-10. The table below show the flats preparation (MODS 035) unit costs that my model attributes to each rate category. The Postal Service's model treats these costs as if they were "proportional," i.e., not affected by presort level.

Table T2-10: Flats Preparation (MODS 035) Costs Per Rate Category(cents/piece)		
Rate Category	PRC Costing	USPS Costing
Basic Nonauto	2.459	2.298
3-Digit Nonauto	2.283	2.133
5-Digit Nonauto	1.331	1.244
Carrier Route Nonauto	0.048	0.045
Basic Auto	2.446	2.285
3-Digit Auto	2.428	2.269
5-Digit Auto	1.797	1.679

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USPS/TW-T2-11. Please refer to Section III.3 of your testimony, beginning on page 14, where you discuss a cost model modification for the UFSM1000, in which 5-digit nonmachinable flats would not be processed during incoming secondary Automated Flats Feeder (AFF) operations on that machine.

(a) Is it your understanding that nonmachinable flats mail pieces cannot be processed on the UFSM1000 when it is operating in AFF mode?

(b) Are any of the operational conclusions concerning the UFSM1000 that you appear to reach in this Section of your testimony based on any direct field observations or data collection effort in which it was estimated that a specific percentage of nonmachinable mail pieces were, or were not, processed during AFF incoming secondary operations on the UFSM1000? If so, please provide an explanation of your observations or the results from any data collection efforts which you may have conducted.

(c) Please quantify the impact that this specific modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-11.

a. No, I understand that the UFSM-1000 has been modified so that it is possible to manually feed and key flats from up to three consoles while also entering flats through the automatic feeder. However, the productivity rate for the manual mode is much slower than the automated feed productivity. The automatically fed and the hand-fed flats go onto the same belt. It is my understanding that this simultaneous use is made possible by slowing the stream of automatically fed flats sufficiently to make room on the belt for the hand-fed flats.

b. I am not aware of any field study of the type you suggest. However, I believe MODS volumes for the two modes of operation constitute the most reliable way to determine their relative use. As explained in my testimony, it was by studying the MODS data provided by witness Bozzo, as well as IOCS tally data for the MODS numbers corresponding to automated and manual feed modes, that I came to conclude that the UFSM-1000 is being used differently for incoming secondary sorting than for other sort schemes.

For outgoing and incoming primary sort schemes, MODS data show roughly equal volumes being sorted in automated and manual feed modes, but with far more workhours being spent in the manual mode. On the other hand, for incoming secondary sorting, the MODS data show far more flats sorted in the automated mode. While there are some flats fed and keyed manually also for incoming secondary sorting, I concluded that this is likely to come mostly from non-machinable flats having been mixed with machinable flats in upstream UFSM sort schemes and requiring manual sorting when put on the machines in the incoming secondary sorting.

Because Millets model does not use the separate and very different automated and manual productivity rates that are available from MODS data, but averages the two, and because MODS data show mostly automated sorting in the incoming secondary. Miller ends up using an average productivity rate for the incoming secondary that is much higher than the average rates for other sort schemes. At the same time, however, his model feeds mostly non-machinable flats to the UFSM also for incoming secondary sorting, which would lead to a much lower productivity rate than the one he uses.

I concluded therefore that to bring the model of UFSM-1000 sorting in better conformance with operational reality, the model must be modified to flow many fewer non-machinable flats to these machines for incoming secondary sorting.

I tend to believe that, if sufficiently comprehensive, a field study of the type suggested would lead to a conclusion similar to that outlined above and in my testimony. However, it would be difficult to make such a study as comprehensive as the totality of national MODS data, which show the total volume being sorted in each mode and for each sort scheme, on all UFSM-1000 machines in use in MODS offices.

c. I will interpret this question to mean how would my estimates of the unit costs for the seven presort/auto rate categories change if my model: (1) were to flow as many non-machinable flats to incoming secondary sorting on UFSM-1000 machines as does Miller's model; and (2) if, like Miller, I assumed that all these non-machinable flats can be sorted at a productivity rate much higher than would normally be realized for non-machinable flats. The table below shows the changes I estimate would occur in my

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results, under USPS and PRC costing respectively, if the model were modified as described above. As can be seen, the effect would be to lower the estimated costs of flats with 5-digit presort. while raising the estimates for all other rate categories

Rate Category	PRC Costing	USPS Costing
Basic Nonauto Presort	0.530	0.558
3-Digit Nonauto Presort	0.311	0.327
5-Digit Nonauto Presort	-0.182	-0.296
Carrier Route Nonauto Presort	0.080	0.079
Basic Auto Presort	0.401	0.436
3-Digit Auto Presort	0.264	0.299
5-Digit Auto Presort	0.300	-0.308

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-12. In your testimony on page 22, lines 16 to 19, you state, "Finally, Miller assumes that in each subsequent bundle sorting operation ten percent ~~of~~ the remaining bundles break. I have **not** changed that assumption, except as noted above in the case ~~of~~ manual sorting operations. However, there **is** no empirical basis ~~for~~ it and I tend to think it is excessive." Please provide an empirical basis for your conclusion that a ten percent subsequent bundle breakage rate is excessive. **If** there is no empirical basis for your conclusion, please explain qualitatively why **you** believe it is excessive.

USPS/TW-T2-12. Please observe that while expressing the belief that Miller's 10% estimate is excessive, I did use it ~~in~~ my model.

As my testimony points out, there appears to exist no empirical basis on which to determine the percent of bundles that break in subsequent bundle sorts, having survived the initial sort. It follows that just as there is no empirical basis for fixing it at 10%, there also is no empirical basis for concluding that 10% is too high or too low.

There are, however, some other good reasons to believe that the 10% estimate is too high. The fact is that the Postal Service has done many things to reduce bundle breakage in recent years. For example:

Postal management has placed great emphasis on bundle recovery in recent years. Bundles that are damaged but ~~still~~ intact are supposed to be reinforced (e.g., by extra bundle wrapping) by employees at SPBS and other bundle sorting operations.

New bundle preparation regulations have been put into effect that were specifically intended to reduce bundle breakage. And the Postal Service has been actively trying to identify mailers that produce "problem" bundles and to work with those mailers.

Lacking empirical evidence one way or the other, it seems reasonable that the Postal Service's flats mail flow models ought to assume that these measures have produced progress in reducing bundle breakage.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-13. In Section III.4 of your testimony you discuss issues pertaining to broken bundles.

(a) Please confirm that you were a member of the **MTAC** Package Integrity **Work** Group that conducted the study upon which USPS-LR-1-297 from Docket No. R2000-1 was based.

(b) If you were a member of the **MTAC** Work Group discussed in part (a), please explain how you defined a "broken bundle" in that study and indicate where that determination was made (e.g., the bundles were manually removed from their containers and examined, the bundles were dumped onto conveyors feeding the SPBS and examined, etc.). Please be specific.

(c) Regardless of how you responded to part (a), please provide **your** current understanding as to what constitutes a broken bundle.

i) Would a bundle that is completely removed from its packaging constitute a broken bundle?

ii) Would a bundle that is partially removed from its packaging constitute a broken bundle?

iii) Would a bundle in which the integrity of the packaging appears to be giving way, yet the bundle is still intact, constitute a broken bundle?

USPS/TW-T2-13.

a. Yes, but only in the sense that I participated as an industry representative on two of the sites visited by the MTAC team

b. The team members did not dump bundles. They watched bundles being dumped from sacks or pallets and being transported on the initial feeder belt. The team counted the total number of bundles and recorded key characteristics such as the type of bundling material and bundling method. Bundles could be recorded as broken any time during the period that they were visible to the team. At the SPBS machines, this meant until shortly before the belt carried bundles to the manual keying stations. Bundles were recorded as broken if they were coming apart or already **apart**. The team also used another category called "suspect" for bundles which the USPS team members thought were in danger of breaking at a later operation. For example, if a bundle had no shrink wrap and was strapped only one way, it would be recorded as

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"suspect" even if there were no immediate signs of it coming apart. Another "suspect" category **was** bundles with shrink wrap only, where one side was at least half open.

C.

i. Yes

ii. Yes

iii. **As I** recall, such bundles **could** be recorded as either "broken" or "suspect" depending on the severity of the damage.

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE

USPS/TW-T2-14. On page 24 of your testimony you describe a modification that you have made to the NonMODS "allied" cost pool. The basis for your adjustment is an IOCS tally analysis indicating that 37% of the costs attributed to that cost pool were for bundle sorting tasks.

(a) Please confirm that there are some cost pools that are classified as "proportional" in your cost model which also contain costs for activities that are not contained in the mail flow model. For example, the "OPBULK" and "OPPREF" cost pools, which represent the opening units, reflect costs for bundle sorting tasks (which are actually modeled) and container sorting tasks (which are not actually modeled). If you do not confirm, please explain.

(b) For the cost pools such as those described in part (a), did you make any attempt to modify those cost pools to remove activities that are not actually included in the mail flow model? If not, why not?

(c) Please quantify the impact that the NonMODS allied cost pool modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-14.

a. A bundle sorting operation includes a great deal of container handling, i.e., containers with bundles to be sorted are staged, then brought to the induction area, dumped and disposed of for further use. Containers with sorted output are removed when full, replaced with other containers, staged for dispatch, or transportation to the next operation, etc. The SPBS productivity rates, for example, include many such activities that really are part of the bundle sorting operation and would be avoided if the bundles already had a higher level of presort (e.g., if they came on a 5-digit pallet instead of a 3-digit pallet).

It may be true in general that almost any processing task is sometimes performed by employees logged into a different MODS operation. However, if the "container sorting tasks" that you refer to include tasks completely unrelated to bundle sorting, then I think those tasks are more likely to be performed either at the platform or at operations dedicated to container sorting, e.g., one of the sack sorting pools.

With regard to the NonMODS allied operation, bundle sorting is a big part of it. There is not a great deal of "container sorting" at a NonMODS office, since such an office is

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almost always a DDU where all containers are to be opened and just need to be brought to the opening area. For example, the stations and branches part of the NonMODS allied pool is mainly from what is still the LD43 pool under the PRC costing methodology and is considered 100% proportional under the PRC version of Miller's model.

b. No, and I think it would be quite inappropriate to do so. One would then have to also examine the platform and all other cost pools to identify activities that the "model" does include. I included part of the NonMODS allied pool because bundle sorting and container movement directly related to bundle sorting is a predominant activity in that pool. In fact, I tend to think that the 37% figure is too low if it is based on a narrow definition of bundle sorting as including only tasks that directly handle bundles.

c. Under PRC costing methodology the impact of including 37% of the NonMODS allied pool in the CRA adjustment is to expand the cost differentials between rate categories, except the cost differentials that are based on distribution of the flats preparation pool, by a factor of **1.0344**.

Under **USPS** costing, the similarly defined factor is **1.0538**.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-15. On page 24 of your testimony you describe your model's reliance on a cost by shape estimate for Outside County Periodicals nonletters (flats and parcels) rather than Outside County flats.

(a) Please quantify the impact that this specific modification had on the CRA adjustment factor.

(b) Please quantify the impact that this specific modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-15.

a. Assuming no other changes, basing the CRA adjustment on non-letters rather than just flats changes the CRA proportional adjustment factor in my model from 1.076 to 1.115 under USPS costing and from 1.139 to 1.179 under PRC costing.

b. Under USPS costing, the effect is to multiply the cost differentials between rate categories, minus the portion that comes from attribution of flats preparation costs (see my response to USPS/TW-T2-10) by a factor of 1.036. Under PRC costing, the corresponding factor is 1.035.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-16. In your testimony from page 24, line 26, to page 25, line 1, you state, "I have therefore, unlike Miller, included in the CRA adjustment non-letter Outside County costs recorded at all piece sorting operations, including letter operations."

(a) Please list all the cost pools which were classified as "fixed" in USPS-LR-L-43 but which you have now ~~classified~~ as "proportional."

(b) Please quantify the impact that this specific modification had on your cost estimates by rate category. In other words, what would the results have ~~been~~ had you not made this modification?

USPS/TW-T2-16. Please note that my testimony describes two different CRA adjustments. The second of those is for my extended model which produces all the unit **costs** used in witness Mitchell's rate design. I will assume, however, that your question refers to the earlier adjustment described at pages 23-25 in my testimony, which is intended as a replacement for ~~the~~ adjustment used by witness Miller.

a. I have added as 'proportional' pools MANL, MANP, NonMODS MANL and NonMODS MANP. In addition, I have classified NonMODS Allied as 37% "proportional," and I distribute directly the CRA costs in the flats preparation cost pool.

b. I already quantified the impact of distributing the flats preparation costs in my response to USPS/TW-T2-10, and the impact of assuming 37% proportionality at the NonMODS allied pool in my response to USPS/TW-T2-14. I will therefore focus here on the impact of adding the four manual letters and parcel pools referred to above.

Under USPS costing, the impact of adding those four pools to the CRA adjustment, assuming all other changes ~~described~~ in my testimony, would be to expand the cost differences among rate categories (apart from the component from the flats preparation pool) by a factor of 1.038. Under PRC costing, the corresponding factor is 1.033.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-17. In your testimony from page 24, line 26, to page 25, line 1, you state, "I have therefore, unlike Miller, included in the CRA adjustment non-letter Outside County costs recorded at all piece sorting operations, including letter operations."

(a) Please confirm that the issue you describe would affect the costs studies for all classes and shapes of mail. For example, the flats cost pools are not classified as proportional in the letters cost models. If you do not confirm, please explain.

(b) Please indicate whether you think the modifications should be made to the cost studies depicting other classes and shapes of mail. If you do not think these changes should be made to the cost studies depicting the other classes and shapes of mail, please explain why this change should be made to the Periodicals Outside County cost study only.

USPS/TW-T2-17.

a-b. To simplify the following discussion, let us assume that there only are two shape categories, namely letters and flats. There are some operations (cost pools) that are intended only for letter processing and some that are intended only for flats processing. However, it is a well known fact that the totality of IOCS tallies taken in a given year includes each of the following combinations:

- (1) letters being processed at letter operations;
- (2) letters being processed at flats operations;
- (3) flats being processed at flats operations; and
- (4) flats being processed at letter operations

As is also well known, the cost pool associated with a given IOCS tally is based on the MODS number that the sampled employee was logged into, which is not necessarily where he was actually working.

Since it is not really possible for flats to be processed at letter operations, the existence of category 4 above must therefore mean that at the time an employee was sampled he was processing flats, but logged into a MODS operation code used for letter operations. The costs associated with that tally will be included in the cost of a letter processing

pool. However, in witness Smith's cost analysis it will be shown as the cost of processing flats at a letter operation. Since those costs in fact must have been incurred at a flats operation, even though the employee was logged into a letter operation, it is in my opinion quite appropriate to include them as part of the total **CRA** costs **of** flats processing. In fact, it is a mistake not to do so.

The case of letters appearing in the IOCS based costing system to have been sorted at a flats operation (category 2 above) is not completely symmetric to the **case** discussed above, because it really is physically possible for letters to be processed at flats operations, at least in manual flats sorting cases.

I have not studied in detail the CRA adjustments being applied to letter or parcel mail flow **models** in this docket. But apart from the small reservation that there may not be complete symmetry between different shapes, I believe that an appropriate **CRA** adjustment must recognize the imperfections in **IOCS/MODS** based costing, namely that some costs associated with one shape will always appear **as** if they were incurred in a cost pool meant for other shapes.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-18. Please refer to page 31, lines 15 to 21, of your testimony. Please **also** refer to witness Tang's testimony (USPS-T-35) at page 5, lines 15 to 18, to the worksheet "Container" in R2006-1 Outside County.xls in USPS-LR-L-126, to the response of witness Tang to NNA/USPS-T35-18 (Tr. 7/1734), and to the oral cross examination of witness Tang by NNA found at Tr. 7/1863-1865. Please confirm that rather than making an assumption "that as the 32 million skin sacks disappear they will be replaced by 35% of 32 million larger and generally less presorted sacks," as you state in your testimony, witness Tang in fact assumed that 35% of 32 million "skin sacks" will remain in the mailstream. If you do not confirm, please explain.

USPS/TW-T2-18. I obviously **cannot** testify about what might have been on witness Tang's mind. However, I would rather believe that what she assumed was something 'that is at least possible, rather than something that is impossible. Since May this year, the Postal Service no longer allows skin sacks. It therefore seems quite impossible that in the test year there would still remain 35% of 32 million, or about 11.2 million skin sacks in the system.

On the other hand, as mailers stop using skin sacks, assuming they are not able to move the pieces and bundles that were in ~~the~~ skin sacks onto pallets. those pieces and bundles will have to go to other sacks. which could either be sacks that already have more than 24 pieces in them, or sacks that are created from consolidating skin sacks. This is a scenario that must have occurred as mailers stopped using skin sacks.

USPS/TW-T2-19

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RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE

USPS/TW-T2-19 Please refer to your response to USPS/TW-T2-7. Please confirm that the 85 percent and 15 figures were not derived from any empirical data (e.g. from postal data collection systems), but were used to achieve a certain model result with respect to the percentage of flats that receive manual incoming secondary sorts. If you do not confirm, please explain.

USPS/TW-T2-19. I cannot confirm, inasmuch as my choice of the 85% and 15% figures was guided by the empirical finding. reported by witness McCrery, that **44.7%** of flats receive manual incoming secondary sorts, and my view that mail flow models used for rate setting ought to correspond as closely as possible to operational reality.

It is true. however, that using the 85% and 15% figures in my model leads to an estimate that only about **40%** of flats receive manual incoming secondary, rather than the **44.7%** reported by McCrery. Using 80% and 20% would come closer to the McCrery figure. However, as explained in my testimony. I chose 85% and 15% because they represent an assumption that the Postal Service will, in the test year, have succeeded in bringing more incoming secondary sorting onto its sorting machines.

Please see also my response to USPS/TW-T2-6, which discusses the empirical basis for McCrery's **44.7%** estimate.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO POIR NO. 19

POLR 19 The United States Postal Service; Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers; and Time Warner Inc. are requested to provide the information described below in assist in developing a record for the consideration of the Postal Service's request for changes in rates and fees. In order to facilitate inclusion of the required material in the evidentiary record, participants are to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearing. Answers from the Post Service are to be provided by October 16, 2006. Answers from Magazine Publishers of America, Inc. and Alliance of Nonprofit Mailers; and Time Warner Inc. are to be provided by October 23, 2006.

In this proceeding Postal Service witness Tang, Time Warner witness Mitchell, and MPA-ANM witness Glick have made Outside County rate proposals. The Commission seeks to develop as complete a record as possible concerning each of these Outside County rate proposals.

During the August 10, 2006, hearing the Presiding Officer requested that witness Tang provide any additional information concerning small publications developed since the conclusion of Docket No. C2004-1.¹ On August 17, 2006, witness Tang responded to the request by providing percentage increases resulting from her Outside County rate proposals for each of the 251 periodicals in her C2004-1 database.² On September 6, 2006, MPA-ANM filed MPA/ANM-LR-3, witness Tang's C2004-1 database, under protective conditions established in Presiding Officer's Ruling No. R2006-1/51.³

On September 21, 2006, Time Warner requested that witness Tang update her C2004-1 database to include data since the inception of the 24-piece sack minimum and calculate the percentage changes resulting from her Outside County rate proposal using the updated information. In addition, Time Warner requested that witness Tang calculate the changes resulting from the Outside County rate proposals of witnesses Mitchell and Glick and provide a comparison of current rates, her proposed rates, and the rates proposed by Time Warner witness Mitchell and MPA-ANM witness Glick.⁴ The Postal Service objected to this interrogatory on September 26, 2006.⁵ The objection focused, in part, on the burden involved in developing a new, representative sample.

The Commission requests that the Postal Service provide, under the protective conditions established in Presiding Officer's Ruling No. R2006-1/51, a version of MPA-ANM-LR-3

¹ Tr. 7/1883-87.

² Response of United States Postal Service Witness Tang to Question Posed by Chairman Omas at the August 10, 2006 Hearing, August 17, 2006.

³ Notice of Alliance of Nonprofit Mailers and Magazine Publishers of America, Inc., of Filing of Library Reference MPA/ANM-LR-3, Protected Material, September 6, 2006.

⁴ TW/USPS-T35-13.

⁵ Objection of the United States Postal Service to Interrogatories of Time Warner Inc. to Postal Service Witness Tang (TW/USPS-T35-11-13), September 26, 2006

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composed of data from as many of the same 251 publications as are currently mailing. This new data should reflect mailings sent after the 24-piece sack minimum became effective.⁶

The Commission further requests that the Postal Service provide a table comparing the percentage changes from current postage to its Outside County rate proposals based on these new, more recent mailings.

After the Postal Service provides more recent data on the 251 publications, the Commission requests that Time Warner and MPA-ANM provide calculations of the percentage changes of their respective proposals on the 251 publications using these more recent data.

Response:

The latest version of the Postal Service's response to **POIR No. 19** was filed under protective conditions, as **LR-L-189** Revised, on October 31. It contains data on 259 publications, including 87 identified as 'RPL,' indicating replacements of the originally sampled publications used by witness Tang in **Docket No. C2004-1**. I will refer to them simply by publication number, i.e., publication 1 through 259.⁷

Table 2 at the end of this response provides my estimates of the per-piece postage each of the publications, assuming no change in mail piece characteristics or mail preparation, would pay under the rates proposed by Time Warner witness Mitchell, and compares those rates with current rates and the rates proposed by witness Tang.

The Time Warner rate proposal recognizes flats machinability as a major cost driver, while current rates and the alternative rates proposed in this docket do not. As a result, flats machinability has a major impact on the comparison between Time Warner's proposed rates and other rate proposals. Table 2 shows which publications are identified as machinable in **LR-L-189**.⁸

⁶ If more recent data for any of the 251 publications is not available, the Postal Service may substitute data for a similar publication.

⁷ The numbering scheme I use is the same as that used by witness Glick in his response on behalf of MPNANM. It can also be described as follows, referring to the final version of the spreadsheet contained in **LR-L-89**. Publications No 1 through 158 are those identified in rows 10 through 167 on worksheet 'eVS,' and publications 159 through 259 are those in rows 10 through 110 on worksheet 'Sample.'

⁸ Some publications are shown as containing both machinable and non-machinable mail pieces. In those cases, I show a publication as machinable if at least half of its pieces are machinable.

The publications in LR-L-189 are shown **as** belonging to three different strata based on circulation size, where those with mailed circulation over 100,000 are called large (LG), those with circulation between 15,000 and 100,000 are called medium (**MD**) and those with less than 15,000 in mailed circulation are called small (**SM**). This corresponds to the original size stratification used by Tang in C2004-1. Towards the end of that docket, however, Tang was asked by the presiding officer to provide additional information about the smallest publications, those with circulation much smaller than 15,000. The information provided in response to that request revealed that over 15,000 publications, more than half of all registered Periodicals, have circulation size under 1,000, and that the median circulation size among those is only 224.⁹

Because of the large number of such very small publications, and the Commission's expressed concern about the impact of any rate proposal on **such** publications, I have identified, in Table 2, the 42 publications with circulation size **below 1,000** as belonging to a separate size stratum, labeled VS (very small).

Since the Time Warner proposal identifies several new cost drivers not previously used in Periodicals rate design, it was to be expected that it would result in somewhat wider differences in percent increases among publications, relative to current rates, than the more conventional rate proposal presented by Tang. While the impact on most publications of Time Warner's rate proposal differs only by a few percentage points from the impact of Tang's rates, for some the difference is considerably greater.

Table 1 below summarizes the comparison of the impact of Tang's and Time Warner's rate proposals on publications in LR-L-189 by size and machinability category. Overall, Tang's proposal would lead to the larger percent increase for 98 and Time Warner's for 161 of those publications.

⁹ See Docket No. C2004-1, Response of Time Warner Inc. EIAI to Notice of Inquiry No. 1 ("Comments of Time Warner Inc. EIAI, Witness Halslein Stralberg on the Characteristics of Very Small Periodicals"), filed December 8, 2004, at 1

Table 1: Summary Comparison Of Impact Of Alternative Rate Schedules On Sampled Publications				
Size (Mailed circulation)	Machinable?	Largest Increase?		Total
		Tang	TW	
LG (>100K)	Yes	24	22	46
	No	1	5	6
MD (>15K, <100k)	Yes	26	46	72
	No	2	26	28
SM (>1K, <15K)	Yes	18	36	54
	No	1	10	11
VS (<1K)	Yes	26	4	30
	No	0	12	12
Total:		98	161	259

Among the categories of publications identified in Table 1, it appears that very small publications (circulation below 1,000) that are machinable would fare considerably better under Time Warner's rates than under those proposed by Tang. As the table shows, 26 of the 30 machinable very small publications in LR-L-189 would do better under the TW rates, only four would do worse. For a few of the 26, postage would even decrease under the TW proposal. For those that are non-machinable, on the other hand, postage would increase more, in some cases much more, under the TW proposal.

In LR-L-189, twelve of the 42 very small publications, or **28.6%**, are identified as **non-machinable**. However, this percentage is not likely to reflect accurately the characteristics of very small publications. Based on data from the more comprehensive survey described in LR-L-91, particularly the data provided by witness Loetscher in response to Time Warner interrogatories, it can be **determined** that only about six or seven percent of publications with circulation under 1,000 are non-machinable.¹⁰ It therefore appears that a large majority of very small publications in fact would do better under Time Warner's proposed rates.

¹⁰ See Table 11 in witness Loetscher's response to TW/USPS-T28-11 (Tr. 7/1519).

LR-L-189 identifies 85 of the publications as being "comailed." It identifies none of them as co-palletized. I suspect, however, that many of the publications identified as comailed are in fact only co-palletized. For this reason I did not attempt to use LR-L-189 as a basis for analyzing the different impact on comailed and other publications of the two rate proposals."

The calculations I used to derive the results presented in Tables 1 and 2 are included in Time Warner library reference E, which is a modified version of the spreadsheet contained in USPS LR-L-189.

¹¹ Some of the publications identified as "comailed" are also identified as non-machinable. A comailer is a machine. While it is possible that some such machines would be able to process publications that are not machinable on AFMS-100 flats sorting machines, I am not aware of the existence of any. Time Warner is awaiting answers from the Postal Service to interrogatories dealing with the subjects of machinability and comailing that it is hoped will bring more clarity to this issue.

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**Table 2: Per-Piece Postage & Rate Increases For LR-L-189 Periodicals Under
Alternative Rate Proposals**

Publication Number	Size	Machin- able?	Postage/Piece			Percent Increase	
			R2005-1	Tang	Milchell	Tang	Mitchell
1	LG	M	\$0.3571	\$0.3890	\$0.3830	8.92%	7.25%
2	LG	M	\$0.1750	\$0.1980	\$0.1839	13.15%	5.07%
3	LG	M	\$0.2865	\$0.3008	\$0.2979	4.99%	3.97%
4	LG	NM	\$0.3022	\$0.3248	\$0.3180	7.49%	5.24%
5	LG	M	\$0.2298	\$0.2555	\$0.2472	11.18%	7.60%
6	LG	M	\$0.2927	\$0.3195	\$0.3085	9.16%	5.42%
7	LG	M	\$0.3446	\$0.3756	\$0.3725	8.98%	8.08%
8	LG	M	\$0.2647	\$0.2900	\$0.2796	9.57%	5.64%
9	LG	NM	\$0.4616	\$0.4985	\$0.5119	7.98%	10.90%
10	LG	M	\$0.2663	\$0.2896	\$0.2894	8.77%	8.68%
11	LG	M	\$0.2524	\$0.2783	\$0.2661	10.26%	5.43%
12	LG	M	\$0.4208	\$0.4531	\$0.4690	7.69%	11.47%
13	LG	M	\$0.1447	\$0.1634	\$0.1516	12.90%	4.72%
14	LG	M	\$0.2570	\$0.2827	\$0.2714	9.99%	5.60%
15	LG	M	\$0.2723	\$0.3041	\$0.3118	11.68%	14.50%
16	LG	M	\$0.1985	\$0.2243	\$0.2201	13.01%	10.91%
17	LG	M	\$0.3407	\$0.3737	\$0.3806	9.68%	11.71%
18	LG	M	\$0.2451	\$0.2706	\$0.2670	10.41%	8.94%
19	LG	M	\$0.2061	\$0.2287	\$0.2146	10.98%	4.12%
20	LG	M	\$0.2833	\$0.3108	\$0.3140	9.70%	10.83%
21	LG	M	\$0.5709	\$0.6109	\$0.6120	7.00%	7.21%
22	LG	M	\$0.1331	\$0.1588	\$0.1365	19.30%	2.50%
23	LG	NM	\$0.4207	\$0.4618	\$0.4960	9.77%	17.91%
24	LG	M	\$0.3341	\$0.3674	\$0.3719	9.98%	11.31%
25	LG	M	\$0.2640	\$0.2923	\$0.2989	10.73%	13.24%
26	LG	M	\$0.1588	\$0.1820	\$0.1608	14.56%	1.25%
27	LG	M	\$0.4581	\$0.4952	\$0.5188	8.08%	13.24%
28	LG	M	\$0.2770	\$0.3065	\$0.3129	10.65%	12.96%
29	LG	M	\$0.2407	\$0.2673	\$0.2683	11.03%	11.45%
30	LG	M	\$0.3060	\$0.3340	\$0.3219	9.17%	5.20%
31	LG	NM	\$0.5879	\$0.6344	\$0.6769	7.91%	15.15%
32	LG	M	\$0.2314	\$0.2561	\$0.2555	10.65%	10.40%
33	LG	M	\$0.2680	\$0.2965	\$0.2942	10.63%	9.78%
34	LG	M	\$0.1732	\$0.1959	\$0.1905	13.10%	9.96%
35	LG	M	\$0.2967	\$0.3261	\$0.3316	10.04%	11.75%
36	LG	M	\$0.1992	\$0.2215	\$0.2290	11.19%	14.96%
37	LG	M	\$0.2356	\$0.2591	\$0.2437	9.98%	3.44%
38	LG	M	\$0.2245	\$0.2422	\$0.2445	7.88%	8.92%
39	LG	NM	\$0.2720	\$0.3005	\$0.3361	10.48%	23.58%
40	LG	M	\$0.3341	\$0.3779	\$0.3926	13.10%	17.49%
41	LG	NM	\$0.4622	\$0.5246	\$0.5614	13.51%	21.45%
42	LG	M	\$0.2430	\$0.2662	\$0.2542	9.54%	4.59%
43	LG	M	\$0.3716	\$0.4196	\$0.4211	12.93%	13.37%

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Publication Number	Size	Machin- able?	Postage/Piece			Percent Increase	
			R2005-1	Tang	Mitchell	Tang	Mitchell
44	LG	M	\$0.2713	\$0.2989	\$0.3092	10.19%	13.97%
45	LG	M	\$0.2597	\$0.2836	\$0.2850	9.20%	9.72%
46	LG	M	\$0.9163	\$1.0490	\$1.1123	14.48%	21.39%
47	LG	M	\$0.2463	\$0.2705	\$0.2558	9.85%	3.87%
48	LG	M	\$0.2168	\$0.2408	\$0.2372	11.08%	9.42%
49	LG	M	\$0.2465	\$0.2758	\$0.2822	11.91%	14.48%
50	LG	M	\$0.4307	\$0.4851	\$0.4893	12.64%	13.62%
51	LG	M	\$0.2575	\$0.2852	\$0.2865	10.75%	11.24%
52	LG	M	\$0.2686	\$0.2960	\$0.2979	10.21%	10.92%
53	MD	NM	\$0.4561	\$0.4964	\$0.5509	8.84%	20.80%
54	MD	M	\$0.2544	\$0.2794	\$0.2738	9.83%	7.64%
55	MD	NM	\$0.5515	\$0.6143	\$0.6625	11.37%	20.12%
56	MD	M	\$0.2525	\$0.2792	\$0.2783	10.60%	10.23%
57	MD	M	\$0.2973	\$0.3303	\$0.3403	11.12%	14.47%
58	MD	M	\$0.2606	\$0.2855	\$0.2724	9.55%	4.50%
59	MD	M	\$0.3860	\$0.4155	\$0.4171	7.64%	8.03%
60	MD	M	\$0.2353	\$0.2654	\$0.2779	12.76%	18.06%
61	MD	M	\$0.2585	\$0.2871	\$0.2839	11.06%	9.85%
62	MD	M	\$0.4116	\$0.4605	\$0.4718	11.89%	14.64%
63	MD	NM	\$0.2182	\$0.2466	\$0.3215	12.99%	47.32%
64	MD	M	\$0.4205	\$0.4515	\$0.4470	7.38%	6.31%
65	MD	NM	\$0.4046	\$0.4534	\$0.5159	12.05%	27.50%
66	MD	M	\$0.1763	\$0.2005	\$0.1904	13.74%	8.03%
67	MD	NM	\$0.3196	\$0.3525	\$0.3882	10.28%	21.45%
68	MD	NM	\$0.1974	\$0.2223	\$0.2211	12.64%	12.02%
69	MD	NM	\$0.2154	\$0.2378	\$0.2463	10.42%	14.36%
70	MD	M	\$0.2170	\$0.2453	\$0.2548	13.01%	17.41%
71	MD	M	\$0.2470	\$0.2719	\$0.2691	10.07%	8.94%
72	MD	M	\$0.2290	\$0.2496	\$0.2509	8.98%	9.57%
73	MD	M	\$0.4431	\$0.4914	\$0.4920	10.89%	11.04%
74	MD	M	\$0.5569	\$0.6030	\$0.6085	8.27%	9.26%
75	MD	NM	\$0.2760	\$0.3086	\$0.3512	11.82%	27.26%
76	MD	M	\$0.1941	\$0.2115	\$0.2119	8.93%	9.18%
77	MD	M	\$0.2027	\$0.2217	\$0.2235	9.38%	10.26%
78	MD	M	\$0.2255	\$0.2496	\$0.2484	10.68%	10.13%
79	MD	NM	\$0.2850	\$0.3162	\$0.3580	10.94%	25.59%
80	MD	M	\$0.2806	\$0.3126	\$0.3182	11.42%	13.41%
81	MD	M	\$0.2342	\$0.2606	\$0.2582	11.26%	10.23%
82	MD	M	\$0.2292	\$0.2521	\$0.2543	9.99%	10.97%
83	MD	M	\$0.4397	\$0.4722	\$0.4699	7.39%	6.87%
84	MD	NM	\$0.6428	\$0.7321	\$0.8047	13.90%	25.19%
85	MD	M	\$0.2834	\$0.3200	\$0.3320	12.92%	17.16%
86	MD	NM	\$0.2867	\$0.3181	\$0.3541	10.95%	23.52%
87	MD	M	\$0.2489	\$0.2717	\$0.2689	9.17%	8.03%
88	MD	NM	\$0.2877	\$0.3161	\$0.3512	9.89%	22.09%
89	MD	M	\$0.2309	\$0.2638	\$0.2796	14.20%	21.05%
90	MD	NM	\$0.2560	\$0.2848	\$0.3120	11.26%	21.89%
91	MD	M	\$0.2363	\$0.2620	\$0.2610	10.99%	10.45%

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Publication Number	Size	Machin- able?	Stage/Piece			Percent Increase	
			R2005-1	Tang	Mitchell	Tang	Mitchell
92	MD	NM	\$0.5119	\$0.6044	\$0.6715	18.06%	31.17%
93	MD	M	\$0.2186	\$0.2451	\$0.2424	12.14%	10.89%
94	MD	M	\$0.2316	\$0.2577	\$0.2565	11.27%	10.75%
95	MD	M	\$0.2296	\$0.2563	\$0.2537	11.65%	10.49%
96	MD	M	\$0.2277	\$0.2526	\$0.2503	10.94%	9.91%
97	MD	M	\$0.4341	\$0.4952	\$0.5011	14.08%	15.44%
98	MD	M	\$0.4731	\$0.5370	\$0.5486	13.50%	15.96%
99	MD	M	\$0.2220	\$0.2471	\$0.2451	11.27%	10.38%
100	MD	M	\$0.2691	\$0.3036	\$0.3167	12.83%	17.70%
101	MD	NM	\$0.2773	\$0.3073	\$0.3474	10.83%	25.28%
102	MD	NM	\$0.4184	\$0.4788	\$0.5469	14.43%	30.70%
103	MD	M	\$0.4783	\$0.5355	\$0.5379	11.96%	12.46%
104	MD	M	\$0.2514	\$0.2781	\$0.2788	10.60%	10.88%
105	MD	NM	\$0.6452	\$0.7100	\$0.7814	10.05%	21.11%
106	MD	NM	\$0.2733	\$0.3017	\$0.3351	10.41%	22.63%
107	MD	M	\$0.3014	\$0.3441	\$0.3538	14.18%	17.39%
108	MD	M	\$0.4040	\$0.4594	\$0.4731	13.70%	17.09%
109	MD	M	\$0.2461	\$0.2720	\$0.2713	10.54%	10.26%
110	MD	NM	\$0.3605	\$0.4142	\$0.5052	14.91%	40.15%
111	MD	M	\$0.2424	\$0.2664	\$0.2688	9.88%	10.89%
112	MD	M	\$0.3246	\$0.3656	\$0.3791	12.64%	16.81%
113	MD	M	\$0.2261	\$0.2507	\$0.2508	10.88%	10.93%
114	MD	NM	\$0.6560	\$0.7312	\$0.8187	11.47%	24.81%
115	MD	NM	\$0.4067	\$0.4682	\$0.4413	15.12%	8.51%
116	MD	NM	\$0.2793	\$0.3101	\$0.3562	11.03%	27.54%
117	MD	M	\$0.2365	\$0.2620	\$0.2651	10.74%	12.06%
118	MD	M	\$0.2527	\$0.2792	\$0.2816	10.45%	11.42%
119	MD	NM	\$0.2786	\$0.3098	\$0.3582	11.21%	28.57%
120	MD	NM	\$0.4058	\$0.4680	\$0.5678	15.34%	39.93%
121	MD	NM	\$0.3595	\$0.4196	\$0.5267	16.70%	46.49%
122	MD	M	\$0.2568	\$0.2844	\$0.2905	10.75%	13.11%
123	MD	NM	\$0.4253	\$0.4870	\$0.5782	14.51%	35.94%
124	MD	M	\$0.2316	\$0.2585	\$0.2556	11.62%	10.35%
125	MD	M	\$0.2565	\$0.2839	\$0.2863	10.66%	11.60%
126	MD	M	\$0.3820	\$0.4419	\$0.4545	15.70%	18.99%
127	MD	M	\$0.2751	\$0.3139	\$0.3333	14.11%	21.14%
128	MD	M	\$0.3436	\$0.3938	\$0.4105	14.61%	19.45%
129	MD	M	\$0.2797	\$0.3251	\$0.3460	16.24%	23.72%
130	MD	NM	\$0.4926	\$0.5487	\$0.5685	11.39%	15.41%
131	MD	M	\$0.2531	\$0.2799	\$0.2828	10.60%	11.74%
132	MD	M	\$0.2404	\$0.2678	\$0.2661	11.40%	10.68%
133	MD	M	\$0.2312	\$0.2558	\$0.2578	10.63%	11.49%
134	MD	M	\$0.3258	\$0.3752	\$0.3950	15.17%	21.25%
135	MD	M	\$0.2759	\$0.3052	\$0.3071	10.62%	11.31%
136	MD	M	\$0.1821	\$0.2016	\$0.2057	10.69%	12.93%
137	MD	M	\$0.2696	\$0.2968	\$0.3042	10.11%	12.83%
138	MD	M	\$0.4745	\$0.5407	\$0.5519	13.94%	16.30%
139	MD	M	\$0.2544	\$0.2813	\$0.2785	10.57%	9.46%

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Publication Number	Size	Machin- able?	Postage/Piece			Percent Increase	
			R2005-1	Tang	Mitchell	Tang	Mitchell
140	MD	M	\$0.2302	\$0.2560	\$0.2522	11.23%	9.58%
141	MD	M	\$0.2686	\$0.2960	\$0.2979	10.22%	10.93%
142	MD	M	\$0.2674	\$0.2940	\$0.2995	9.94%	11.97%
143	MD	M	\$0.2255	\$0.2525	\$0.2503	11.94%	10.97%
144	MD	M	\$0.2474	\$0.2732	\$0.2703	10.41%	9.23%
145	MD	M	\$0.2448	\$0.2679	\$0.2655	9.42%	8.43%
146	MD	M	\$0.2372	\$0.2624	\$0.2639	10.64%	11.28%
147	MD	M	\$0.2224	\$0.2474	\$0.2447	11.26%	10.07%
148	MD	M	\$0.2237	\$0.2432	\$0.2457	8.69%	9.81%
149	MD	M	\$0.3510	\$0.3854	\$0.3979	9.81%	13.37%
150	MD	M	\$0.2550	\$0.2820	\$0.2844	10.58%	11.53%
151	MD	M	\$0.2613	\$0.2867	\$0.2937	9.71%	12.39%
152	MD	NM	\$0.3332	\$0.3814	\$0.4651	14.44%	39.58%
153	SM	M	\$0.2460	\$0.2659	\$0.2634	8.13%	7.08%
154	SM	M	\$0.3769	\$0.4373	\$0.3997	16.01%	6.04%
155	SM	M	\$0.4214	\$0.4932	\$0.4531	17.05%	7.52%
156	SM	M	\$0.2999	\$0.3566	\$0.3812	18.90%	27.11%
157	SM	M	\$0.4095	\$0.4665	\$0.4695	13.91%	14.65%
158	SM	NM	\$0.6645	\$0.7529	\$0.7869	13.30%	18.42%
159	SM	M	\$0.2808	\$0.3129	\$0.2925	11.45%	4.20%
160	SM	M	\$0.2263	\$0.2526	\$0.2507	11.62%	10.79%
161	SM	M	\$0.3361	\$0.3881	\$0.4065	15.48%	20.95%
162	SM	M	\$0.1751	\$0.1992	\$0.1936	13.75%	10.53%
163	SM	M	\$0.3311	\$0.3830	\$0.4019	15.67%	21.38%
164	SM	M	\$0.2157	\$0.2412	\$0.2369	11.79%	9.83%
165	SM	M	\$0.2142	\$0.2420	\$0.2548	13.00%	18.97%
166	SM	M	\$0.3237	\$0.3792	\$0.3939	17.14%	21.69%
167	SM	NM	\$0.6914	\$0.8003	\$0.8931	15.74%	29.18%
168	SM	M	\$0.1462	\$0.1641	\$0.1591	12.22%	8.82%
169	SM	NM	\$0.7171	\$0.8373	\$0.9898	16.76%	38.03%
170	SM	M	\$0.2329	\$0.2668	\$0.2663	14.53%	14.33%
171	SM	M	\$0.3663	\$0.4426	\$0.4650	20.84%	26.94%
172	SM	M	\$0.2790	\$0.3229	\$0.3452	15.75%	23.72%
173	SM	M	\$0.1696	\$0.1924	\$0.2121	13.44%	25.07%
174	SM	M	\$0.2420	\$0.2730	\$0.2737	12.82%	13.09%
175	SM	M	\$0.2518	\$0.2861	\$0.3044	13.64%	20.89%
176	SM	M	\$0.1958	\$0.2253	\$0.2375	15.05%	21.26%
177	SM	NM	\$0.7049	\$0.7971	\$0.8378	13.08%	18.85%
178	SM	M	\$0.1835	\$0.1992	\$0.1964	8.55%	7.03%
179	SM	M	\$0.3022	\$0.3534	\$0.3634	16.95%	20.27%
180	SM	NM	\$0.5298	\$0.5782	\$0.5433	9.15%	2.56%
181	SM	NM	\$0.6094	\$0.7322	\$0.7898	20.14%	29.60%
182	SM	M	\$0.2183	\$0.2349	\$0.2209	7.62%	1.18%
183	SM	M	\$0.3714	\$0.4336	\$0.4301	16.75%	15.83%
184	SM	M	\$0.2162	\$0.2476	\$0.2757	14.50%	27.48%
185	SM	M	\$0.2536	\$0.2948	\$0.2959	16.24%	16.68%
186	SM	M	\$0.2638	\$0.3008	\$0.3225	14.02%	22.22%
187	SM	M	\$0.2400	\$0.2718	\$0.2782	13.26%	15.89%

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Publication Number	Size	Machin- able?	Postage/Piece			Percent Increase	
			R2005-1	Tang	Mitchell	Tang	Mitchell
188	SM	M	50.2313	\$0.2785	\$0.3176	20.39%	37.29%
189	SM	NM	\$0.3110	\$0.3548	\$0.4109	14.09%	32.14%
190	SM	M	\$0.4226	\$0.4861	\$0.4583	15.03%	8.46%
191	SM	M	\$0.2738	\$0.3183	\$0.3314	16.25%	21.04%
192	SM	M	\$0.2709	\$0.3126	\$0.3340	15.38%	23.31%
193	SM	M	\$0.2996	\$0.3538	\$0.3564	18.10%	18.96%
194	VS	M	\$0.2387	\$0.2790	\$0.3134	16.84%	31.27%
195	VS	M	\$0.4422	\$0.5030	\$0.4538	13.75%	2.62%
196	VS	NM	\$0.3033	\$0.3597	\$0.4401	18.58%	45.10%
197	VS	M	\$0.4118	\$0.4807	\$0.5157	16.73%	25.22%
198	VS	M	\$0.3046	\$0.3451	\$0.2813	13.30%	-7.63%
199	VS	NM	\$0.6878	\$0.8308	\$0.9638	20.80%	40.14%
200	VS	M	\$0.3300	\$0.3699	\$0.3308	12.10%	0.24%
201	VS	M	\$0.2503	\$0.2969	\$0.3253	18.62%	29.99%
202	VS	NM	\$0.3489	\$0.4008	\$0.4634	14.88%	32.80%
203	VS	M	\$0.2950	\$0.3378	\$0.3307	14.53%	12.12%
204	VS	NM	\$0.2162	\$0.2566	\$0.3087	18.69%	42.80%
205	VS	NM	\$0.3671	\$0.4388	\$0.5840	19.52%	59.08%
206	VS	M	\$0.3712	\$0.4429	\$0.4036	19.33%	8.74%
207	VS	NM	\$0.3037	\$0.3531	\$0.4001	16.26%	31.71%
208	VS	NM	\$0.3246	\$0.3808	\$0.4453	17.33%	37.21%
209	VS	M	\$0.2869	\$0.3705	\$0.3577	29.14%	24.67%
210	VS	NM	\$0.3359	\$0.3980	\$0.4660	18.50%	38.73%
211	SM	M	\$0.2565	\$0.2985	\$0.3198	16.36%	24.70%
212	SM	M	\$0.4068	\$0.4642	\$0.4735	14.12%	16.40%
213	SM	M	\$0.2964	\$0.3421	\$0.3608	15.42%	21.71%
214	SM	M	\$0.2836	\$0.3290	\$0.3386	16.02%	19.41%
215	SM	M	\$0.6218	\$0.7043	\$0.6813	13.28%	9.58%
216	SM	M	\$0.4154	\$0.4846	\$0.5027	16.67%	21.02%
217	SM	M	\$0.4252	\$0.4905	\$0.5008	15.38%	17.78%
218	SM	M	\$0.3361	\$0.3924	\$0.4073	16.75%	21.21%
219	SM	M	\$0.4368	\$0.5096	\$0.5185	16.68%	18.71%
220	SM	M	\$0.2886	\$0.3366	\$0.3555	16.61%	23.33%
221	SM	M	\$0.4023	\$0.4640	\$0.4748	15.34%	18.03%
222	SM	M	\$0.8377	\$0.9434	\$0.9222	12.62%	10.08%
223	SM	M	\$0.3086	\$0.3458	\$0.3521	12.07%	14.10%
224	SM	M	\$0.4566	\$0.5166	\$0.5136	13.14%	12.48%
225	SM	M	\$0.3374	\$0.3940	\$0.4042	16.78%	19.80%
226	SM	M	\$0.2972	\$0.3509	\$0.3576	18.08%	20.32%
227	SM	M	\$0.3953	\$0.4574	\$0.4462	15.70%	13.01%
228	SM	NM	\$0.7731	\$0.9208	\$0.9663	19.11%	24.99%
229	SM	NM	\$0.5194	\$0.6121	\$0.7031	17.86%	35.38%
230	SM	M	\$0.3541	\$0.4145	\$0.4211	16.86%	18.74%
231	SM	M	\$0.2565	\$0.3040	\$0.3155	18.54%	23.15%
232	SM	M	\$0.3145	\$0.3706	\$0.3640	17.85%	15.74%
233	SM	NM	\$0.5883	\$0.6865	\$0.7431	16.69%	26.32%
234	SM	NM	\$0.5931	\$0.6911	\$0.7523	16.57%	26.85%
235	VS	M	\$0.2550	\$0.2974	\$0.2959	16.61%	16.03%

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Publication Number	Size	Machin- able?	Postage/Piece			Percent Increase	
			R2005-1	Tang	Mitchell	Tang	Mitchell
236	VS	M	\$0.3068	\$0.3544	\$0.3369	15.53%	9.84%
237	VS	M	\$0.3529	\$0.3997	\$0.3487	13.28%	-1.19%
238	VS	M	\$0.5202	\$0.5782	\$0.5218	11.14%	0.30%
239	VS	M	\$0.3689	\$0.4178	\$0.3839	13.25%	4.07%
240	VS	M	\$0.3526	\$0.3963	\$0.3545	12.39%	0.55%
241	VS	NM	\$0.3823	\$0.4438	\$0.5049	16.11%	32.08%
242	VS	M	\$0.5469	\$0.6254	\$0.5738	14.34%	4.90%
243	VS	M	\$0.6337	\$0.7101	\$0.6455	12.06%	1.87%
244	VS	M	\$0.3880	\$0.4420	\$0.3684	13.93%	-5.04%
245	VS	M	\$0.3540	\$0.3968	\$0.3710	12.10%	4.79%
246	VS	M	\$0.4554	\$0.5192	\$0.4663	14.00%	2.39%
247	VS	M	\$0.3998	\$0.4642	\$0.4115	16.12%	2.93%
248	VS	M	\$0.3617	\$0.4232	\$0.3777	17.01%	4.41%
249	VS	M	\$0.3671	\$0.4329	\$0.4018	17.92%	9.46%
250	VS	M	\$0.4156	\$0.4819	\$0.4230	15.94%	1.77%
251	VS	M	\$0.4219	\$0.4893	\$0.4597	35.97%	8.96%
252	VS	NM	\$0.4379	\$0.5100	\$0.6249	16.45%	42.69%
253	VS	M	\$0.2426	\$0.3077	\$0.2953	26.83%	21.70%
254	VS	M	\$0.4388	\$0.5203	\$0.4962	18.57%	13.08%
255	VS	NM	\$0.5172	\$0.6164	\$0.7404	19.18%	43.16%
256	VS	M	\$0.4961	\$0.6037	\$0.5878	21.68%	18.49%
257	VS	NM	\$0.5927	\$0.7002	\$0.7617	18.14%	28.52%
258	VS	M	\$0.4528	\$0.6508	\$0.6645	43.73%	46.76%
259	VS	M	\$0.3130	\$0.3867	\$0.3118	23.54%	5.41%

1 CHAIRMAN OMAS: Is there any additional
2 written cross-examination for this witness?

3 MR. KEEGAN: Mr. Chairman, Mr. Stralberg's
4 response to POIR No. 19 was just put into evidence,
5 and I wonder if this would be an appropriate time to
6 put in the associated library reference?

7 CHAIRMAN OMAS: Yes, it would.

8 BY MR. KEEGAN:

9 Q Mr. Stralberg, is there a library reference
10 that you sponsor associated with your response to POIR
11 No. 19?

12 A Yes. TW-LR-6 contains my calculations that
13 are the basis for my answer to POIR 19.

14 Q And that was prepared by you?

15 A Yes.

16 Q And there have been no corrections or
17 changes since it was filed?

18 A No.

19 MR. KEEGAN: Mr. Chairman, I move that
20 TW-LR-6 be admitted into evidence.

21 CHAIRMAN OMAS: Without objection. So
22 ordered.

23 That then brings us to oral cross-
24 examination.

25 Two participants have requested oral cross.

1 American Business Media Press, Mr. Straus, you may now
2 begin.

3 MR. STRAUS: Thank you, Mr. **Omas**.

4 CROSS-EXAMINATION

5 BY MR. STRAUS:

6 Q Mr. Stralberg, David Straus for American
7 Business Media.

8 A Hi.

9 Q This is going to be pretty short because you
10 never seem to give me the answers I want.

11 A Well, **try** me again.

12 Q If you would be a little bit more
13 cooperative we could go on a little longer.

14 Let's start with your written cross-
15 examination and get to POIR 19. I'd like you to take
16 a look at page 3 of your revised response to ABM 8.

17 A Did you say POIR 19, or did you say ABM 8?

18 Q No, no, no. ABM 8.

19 A Okay.

20 Q We're going to start with the
21 interrogatories and then go to POIR 19 second. I'm
22 looking at the table at page 3 and the table at page 4
23 of that response.

24 A Okay. Table 3 or 4?

25 Q Well, let's start with 3.

1 A Okay.

2 Q This is just a matter of curiosity. In the
3 complaint case you provided the equivalent type of
4 data or some of these data with the names of the
5 publications, and here you've used publication
6 numbers. Is there some --

7 A Because you suggested it in your question.

8 Q I didn't demand it.

9 A No, no Since the interrogatory was stated
10 that way --

11 Q Okay.

12 A -- I asked Mr. Ryan should we give them
13 names or numbers, and he said give them numbers.

14 Q So we'll get him on the stand.

15 A Yes.

16 Q Take a look at Publications 4 and 6 --

17 A Okay.

18 Q -- sort of together if you can.

19 A Okay.

20 Q For No. 4, the supplemental mailing **has** no
21 sacks. For No. 6, the supplemental mailing has all
22 sacks. The publications are roughly the same size.

23 I see. There is no supplemental mailing for
24 **No. 4.** That answers my question. Is that correct?
25 There's no supplemental mailing?

1 A No. 4 happens to be a weekly publication,
2 and No. 6 happens to be a monthly publication.

3 Q Right.

4 A Monthly publications tend to have a lot of
5 supplementals.

6 Q Why is that 100 percent sacked?

7 A I can't really tell you that. That is the
8 way it's done. It probably means that there aren't a
9 whole lot of pieces **in** the supplemental mailing.

10 Q Well, there's the difference between
11 1,869,682 and **1,839,685**, correct?

12 A Yes, khat would be true.

13 Q So that would be roughly 30,000 pieces?

14 A Yes.

15 Q And that's not enough to justify
16 copalletizing or comailing, I guess?

17 A I cannot explain the decisions that are
18 being made in the plants.

19 Q Okay. Let's look at Publication No. 1. Is
20 that **People** magazine?

21 A Guess again.

22 Q Sports **Illu**strated?

23 A Guess again.

24 Q Don't tell me it's **Entertainment Week**.

25 A No. I is **Time** magazine.

1 Q Okay. Good. If it was Entertainment Week I
2 would wonder about where our culture is going. I
3 thought People was bigger than Time.

4 A They make more money.

5 Q Even ABM publications probably do. Strike
6 that.

7 1.94 percent of the main file is in sacks,
8 correct?

9 A Yes, that's what it says.

10 Q And that's more than four million pieces a
11 year, correct?

12 A I didn't make that calculation, but it
13 sounds reasonable.

14 Q Why are four million pieces a year still
15 being mailed in sacks?

16 A They're not all being mailed at the same
17 time. There are four million pieces in a given
18 mailing divided over five plants, so on average the
19 plants end up with 1.94 percent in sacks.

20 Q That's still four million pieces in sacks
21 even if it were --

22 A Over the year. I don't see why that's
23 relevant. They couldn't obviously wait the whole year
24 before they mailed it.

25 Q Okay. Four million divided by 52 is what,

1 80,000?

2 A Whatever. Yes, something like that.

3 Q So that's 80,000 a week mailed in sacks?

4 A Yes, divided over five plants, remember, so
5 it's about 16,000 on the average.

6 Q Okay. So it's 16,000 per plant per week
7 mailed in sacks?

8 A Yes.

9 Q But all plants don't do the same number of
10 copies, correct?

11 A No. It varies a little bit.

12 Q So some would be more than 16,000?

13 A Yes.

14 Q Some would be fewer than 16,000?

15 A Yes.

16 Q Now take a look at Publication 39.

17 A Okay.

18 Q That's the one with 51,801 copies as a
19 monthly. It shows 17 percent in sacks, yet I believe
20 on the next page it's indicated that it is not
21 comailed or copalletized.

22 Is this a very heavy publication? Is that
23 how it winds up with only 17 percent in sacks?

24 A I would have to check that. I don't know.
25 Let's see. It's not particularly lightweight.

1 Q But it's able to palletize on its own 83
2 percent of its copies with 50,000 in the main file?

3 A Let's see. Where did you see that?

4 Q Well, it shows 17 percent in sacks on page
5 3.

6 A Right.

7 Q On page 4 you indicated where a publication
8 was comailed or copalletized.

9 A They copalletize the supplements.

10 Q Right, but not the main file?

11 A No.

12 Q So 83 percent of the main file is palletized
13 on its own?

14 A That's what it says.

15 Q But is that true?

16 A Well, that's information that we derived
17 from the mail.dat files, so I assume that is correct.

18 Q I was just making sure you didn't make an
19 error here.

20 A No. No. I mean, I can double check for you
21 later, but I don't think so.

22 Q All right. If you discover that there was
23 an error could you let your lawyer know?

24 A Yes. I'll let you know, but I don't think
25 so.

1 Q Okay. Have you calculated the effect of the
2 Time Warner proposal versus the Postal Service
3 proposal on the Time Warner publications?

4 A Nobody has. I have not, nor has Time
5 Warner.

6 Q It wouldn't be very difficult, would it?

7 A Yes. I indicated I think in my answer to
8 this interrogatory a number of the publications are
9 either comailed or copalletized.

10 The information that they receive back from
11 the printers or the copalletizers is sufficient to
12 determine the Postal rates under the current rate
13 structure. It's not sufficient to determine what
14 exactly they would be paying under Time Warner's
15 proposal.

16 Q Okay. Let me rephrase the question. Would
17 it be pretty easy to do that for the Time Warner
18 copies that are not comailed or copalletized?

19 A Yes, it should be.

20 Q I mean, it's just an Excel spreadsheet
21 manipulation, correct?

22 A It could be done, yes.

23 Q Volumes times price?

24 A It could be done.

25 Q Compared with volumes times price?

1 A It could be done.

2 Q And you didn't do it?

3 A No.

4 Q Time Warner wasn't curious as to what the
5 impact of its own proposal is on Time Warner?

6 A I was never asked to do it, and my
7 understanding is they haven't done it. Their main
8 concern I believe is about the rate structure that's
9 being proposed

10 Q Truth, justice and the American way.

11 A Well, it's true.

12 Q Is it also true that on Publications 1, 2
13 and 3 only Time would save more than \$6 million in
14 postage compared to the Postal Service proposal?

15 A You have made that calculation. I haven't.

16 Q Yes, I did, but could you accept that
17 subject to check?

18 A Subject to check, sure.

19 Q Do you know what percentage of the Time
20 Warner copies are copalletized and comailed on an
21 annual basis?

22 A No, I don't.

23 Q It would be a pretty low percentage,
24 wouldn't it?

25 A Well, it depends on what you mean by

1 comailing. Time Warner's weeklies are comailed with
2 themselves.

3 I mean, each of those publications have
4 thousands of different versions so they do another
5 type of comailing called selective binding. If you
6 call that comailing, which in fact it is, then almost
7 all of Time Warner's volume is comailed. There's a
8 fairly small portion that's comailed with other
9 publications.

10 Q In terms of the number of copies that would
11 have to be excluded from an impact analysis, that
12 would be very small?

13 A What do you mean, excluded from an impact --
14 sure. Sure.

15 Q You understand?

16 A I understand what you're saying, yes.

17 Q I should know the answer to this. In your
18 response to ABM Question 9 you provided a table of
19 four pages. Has that been now replaced with the
20 response to POIR 19?

21 A Well, it hasn't been replaced. The answer
22 is still here, but I think we indicated or I think I
23 indicated here that since this data, Postal Service
24 data, that's been used was several years old and mail
25 preparation has changed since then, the numbers may

1 not mean a whole lot so I would pay more attention to
2 POIR 19.

3 Q In response to McGraw-Hill Question 6 --

4 A Okay. Let me find that.

5 Q -- which addressed the difficulty of trying
6 to calculate the impact of any proposal on comailed
7 and copalletized pieces, you discuss in response to
8 (a) that a printer is developing an ability to analyze
9 this impact and that a copalletizer is also doing it.
10 How is that work going?

11 A My understanding is we don't really have any
12 results at this time that I was sharing. It's true
13 that they are working on it, and they obviously will
14 have something in place when these rates take effect.

15 Q But as of now, to your knowledge there's no
16 reasonable way --

17 A The software development is not completely
18 trivial, so it takes some time.

19 Q Let me *try* to finish my question.

20 A Okay. Sorry.

21 Q That's okay. I do the same thing.

22 A Yes.

23 Q So at the moment there's no reasonable way
24 to calculate the impact of any of these proposals on
25 comailed and copalletized pieces? Is that correct?

1 A There is a way if one had the information
2 that the printers have. In some cases, for example in
3 the complaint case, I had a complete comail file for a
4 group of Conde Naste publications, and I was in fact
5 able to calculate the impact on each one because I had
6 all the information.

7 Generally the printers will not release
8 information thit includes other publishers and so in
9 practice there is no way right now. What they would
10 have to provide is exactly what will be charged to
11 each publication.

12 Q In response to part (b) of that same
13 question you say that there's no reason to suppose
14 that the impact of Time Warner's proposed rates on
15 comailed and copalletized publications would be
16 anything but favorable. Favorable compared to what?

17 A Well, there's two ways to interpret that.
18 One is generally by comailing and copalletizing the
19 publications or the pool as a whole would pay less
20 postage than if they did not comail or copalletize.

21 Q But in theory at least it's possible that
22 the reduced postage would be exceeded by the costs of
23 participating?

24 A Well, if anyone wanted to participate in
25 that case.

1 Q Right.

2 A I would assume that this is a business
3 relationship between the printer and the publisher,
4 and everybody would be looking out for their own
5 interests.

6 Q Theoretically speaking, if the postage
7 advantage of copalletizing were one-tenth of a cent
8 per piece, you wouldn't say that --

9 A Then that probably wouldn't be done.

10 Q And then you wouldn't say that the impact on
11 copalletized pieces, a proposal with that result was
12 favorable, would you?

13 A If there was such little benefit from
14 comailing or copalletizing, it's hard to imagine that
15 it would be done.

16 Q So you weren't just saying here that it's
17 favorable in the Time Warner proposal compared to the
18 Postal Service's proposal?

19 A I believe that generally the incentives to
20 comail or copalletize would be larger under the Time
21 Warner proposal.

22 Q In response to Part C, you say that
23 comailing and copalletizing means that publications
24 share some resources, and consequently they will use
25 fewer resources. Fewer of whose resources?

1 A The Postal Service's resources.

2 Q And they will use more of the printer's
3 resources, correct?

4 A Certainly the printer has to provide the
5 facilities for doing the comailing or the
6 copalletization.

7 Q So when you comail or copalletize you use
8 fewer Postal Service resources and more printer
9 resources?

10 A That's a tradeoff that has to be considered,
11 yes.

12 Q And ~~what~~ data have you collected and
13 considered on the costs incurred by printers or the
14 prices charged to mailers --

15 A None.

16 Q -- for copalletizing or comailing?

17 A I haven't collected any data on that.

18 Q Now we'll look, please, at your response to
19 POIR 19.

20 A Okay.

21 Q Footnote 8 on page 2 says that some
22 publications have both machinable and nonmachinable
23 pieces. I'm trying to figure out why this would
24 happen. Could it be because some have poly and some
25 don't, and the poly is not machinable poly?

1 A Well, you know, we received responses from
2 the Postal Service just the other day to some late
3 interrogatories that were filed to them where we asked
4 about **specifically** how did they characterize certain
5 publications as machinable and nonmachinable.

6 I haven't been able to analyze that
7 completely yet because it's a pretty large file. One
8 thing I can say though is it appears in those cases
9 that the Postal Service, in defining machinability,
10 has applied the weight limits, which for periodicals
11 is one and a quarter pounds, and in a given mailing
'12 there may be some pieces for some publications that
13 are a little over and a little under.

14 Q Because they're different editions?

15 A Yes, different versions. Different
16 geographic versions and so on. At least that is one
17 explanation that I can see why this happened in a few
18 cases.

19 Q Well, are there any other explanations you
20 know of just from experience? For example, the
21 example I gave where a publication might have some of
22 its pieces in poly and some not in poly?

23 A That's conceivable.

24 Q Or maybe a ride along **with** some pieces and
25 no ride along with other pieces?

1 A Well, you asked me about the reasons why the
2 Postal Service has provided data that shows some
3 machinable and some nonmachinable.

4 Q No. I'm asking you in a more general sense,
5 for example, as to why a specific publication, a
6 specific mailing, might have some machinable and some
7 nonmachinable pieces, not why the Postal Service may
8 have

9 A It is conceivable if they use poly wrap
10 that's not certified.

11 Q Do you have an estimate or a feeling for
12 what percentage of publications that are machinable
13 only on the FSM 1000 that are likely to be machinable
14 on the FSS machines?

15 A First of all, I should mention the Federal
16 Register notice that came out on September 27 where
17 the Postal Service essentially summarizes the
18 standards for implementing what they're proposing in
19 this rate case.

20 They essentially are addressing first class
21 flats and standard flats and not periodical flats at
22 this time, but basically they're saying both for first
23 class flats and for standard flats that their criteria
24 for machinability from now on will be AFSM 100
25 machinability.

1 Let's see if I can see what they're saying
2 for the standard. It purportedly includes a new, not
3 flat machinable NEM classification for rigid flat-
4 sized pieces and for pieces that are currently
5 automation compatible only by meeting UFSM 1000
6 standards.

7 In other words, they are proposing to
8 characterize those flats as nonmachinable. Now,
9 they're not doing this for periodicals yet.

10 Q You said from now on. Forever or until the
11 FSS becomes operational?

12 A Well, I don't know about that. I assume the
13 Postal Service wouldn't restrict their standard for
14 machinability if they thought pretty soon everyone
15 will be machinable.

16 The standard for UFSM 1000 machinability now
17 is basically that it must be a flat. There really
18 isn't much that's not UFSM 1000 machinable, and that
19 is because that machine can work in two ways, either
20 with an automated feeder, which basically takes the
21 same type of mail that the AFSM 100 takes, or flats
22 can be keyed manually.

23 Q Are there some pieces that are not
24 machinable on the 100 that will be machinable on the
25 FSS?

1 A I don't know about that. I think experience
2 will show, and the Postal Service will I presume
3 continue to rewrite regulations for what is machinable
4 and what is not machinable.

5 Q Please look at page 6, or I guess maybe all
6 of the --

7 A Are we still on POIR 19?

8 Q Right **The** entire table.

9 A Okay.

10 Q I calculated, and I'm not asking you to
11 accept it, that: if I'm looking at publications that
12 under the Mitchell proposal, the Time proposal, would
13 pay an increase of less than six percent, which is
14 less than half of the class average, there are 15
15 large, one medium, one small and 15 very small, which
16 makes it very symmetric.

17 A What specific number did you look at? Six
18 percent?

19 Q Yes.

20 A I didn't make that calculation.

21 Q I understand.

22 A So what are you saying?

23 Q Well, I'm setting up my question.

24 A Okay.

25 Q Can you tell me what kinds of

1 characteristics of publications produce increases of
2 less than six percent under your proposal?

3 A I don't know if there's any single one
4 characteristic. My response mentions that one
5 characteristic that seems to be fairly dominant has to
6 do with machinability or nonmachinability.

7 Certainly there are other factors that would
8 contribute to --

9 Q Well, I understand that the big numbers tend
10 to be the nonmachinable numbers. Most of the numbers
11 on the right-hand column are significantly higher than
12 four or five percent, but there are 15 large, 15 very
13 small and one medium and one small that are less than
14 six percent.

15 Again, what types of characteristics for the
16 machinable pieces tend to lead to favorable rate
17 results? By favorable I mean less than a six percent
18 increase.

19 A Okay. It's hard to answer that question in
20 general. First of all, if you look through the whole
21 table there are some smaller publications that in fact
22 would pay slightly less than under the current rates
23 under this proposal according to the calculation.

24 Some of them are in sacks. I found one, for
25 example, yesterday -- I forget which one it was now --

1 that is all sacked. It has 135 pieces per sack.
2 That's a good indication that it will not pay a whole
3 lot of container charges.

4 Q So you can't generalize --

5 A It's difficult to generalize, yes.

6 Q -- that a lot of pieces per container would
7 characterize what I call the winners here?

8 A I can give you one more characteristic, and
9 this is why many of the very small publications do
10 pretty well under this proposal.

11 Under the current rate structure and also
12 under the other rates that are being proposed the
13 discount for putting a barcode on the piece tends to
14 exceed by a wide margin the cost actually saved by
15 putting the barcode on the piece.

16 I think Tang's proposal is like on five
17 digit flats passing through 900 percent of the actual
18 cost difference. Mitchell's proposal passes through
19 100 percent. That may appear to many people who are
20 receiving automation discounts as if something is
21 being taken away from them, but in fact those
22 discounts were in excess of the cost savings they
23 really produced.

24 So in fact publications that are not
25 receiving or are not currently able to put barcodes on

1 their pieces will generally do quite well under this
2 proposal.

3 Q So to put words in your mouth, if you're
4 very large and have a lot of carrier route presort
5 you're not now getting a barcode discount, or if
6 you're very small and maybe unsophisticated and don't
7 use barcodes because you don't know how to do them
8 except draw them by hand --

9 A That would be hard to do.

10 Q Yes. So those people who would benefit from
11 this proposal would be the ones who would be the
12 carrier route presort people at the big end and the
13 very small, Unsophisticated mailer at the small end,
14 or maybe small end carrier route because maybe it's
15 very localized?

16 A Generally carrier route presorted flats, for
17 them machinability is not an issue because they are
18 not run on the machines. Even for many with a five
19 digit presort, those are not going to spend very much
20 time on the machines either.

21 Q But they get a discount today?

22 A They get a huge discount today.

23 Q Right. I'm not arguing with you. I'm just
24 trying to understand.

25 A Yes.

1 Q The reason that some very big publications
2 get a small increase based on this factor would be
3 that they have a lot of carrier route presort that
4 doesn't get a barcode discount today and so --

5 A No. I don't think the issue of barcode
6 discount is really relevant there. The fact that they
7 are highly palletized, highly presorted does help
8 certainly.

9 Q Okay.

10 A Not being able to barcode currently is
11 something that would be helping some of the very small
12 publications.

13 Q Looking at the other end of the spectrum
14 from the people with small increases, there's just a
15 few here. Publication 156 would have a 27 percent
16 increase under your proposal.

17 A Publication 156?

18 Q Yes, and 188, which would have more than 37
19 percent. What can you tell me about 156 and 188?

20 A Okay. Here's what I was planning to do in
21 case this question came up. I have all of this in my
22 computer, okay? I might be able -- I don't guarantee
23 it, but I might be able to tell you something about
24 them. So the first one was 156?

25 Q Yes.

1 A And of course this is information that is
2 protected, so it's a question of what I can really
3 tell you. I don't think that's a problem here.

4 Q I'm not asking you for specifics. I'm
5 asking you for sort of a general characteristic that
6 led to a --

7 A The thing is for each of these the only way
8 I can answer your question is to look at the specific
9 characteristics of that publication.

10 Q I understand, but I think you can probably
11 describe it without violating any confidentiality.

12 A Yes. Okay. Certainly I don't know what
13 these are, and this is small enough. So what was the
14 question?

15 Q The publishers looking at this are going to
16 say I hope I don't have any of those 27s or 37s in my
17 list of publications. It would be helpful in
18 assessing the Time Warner proposal to know with some
19 more specificity what types of publications get, to
20 use the vernacular, nailed by this proposal.

21 A Okay. Publication 156, it would get an 18.9
22 percent increase under the Postal Service proposal.

23 Q Right.

24 A And it would get a 27.1 percent increase
25 under the Time Warner proposal. This is a publication

1 I have not looked at and so I don't really know what
2 its characteristics are.

3 Q Okay. Well, maybe we should try 188 then.

4 A Yes, 188. Let's see. Did I make any notes
5 about 188?

6 Q Well, that's No. 1 on your list. I mean,
7 it's the biggest increase you show for a machinable
8 publication.

9 A It's 37.3 percent.

10 Q Yes.

11 A Okay. Versus 20.4 percent under -- it
12 wouldn't do too well under the Postal Service's
13 proposal either.

14 Q No, but the difference is 17 percentage
15 points.

16 A Right. I know.

17 Q There's almost twice as big an increase.

18 A Yes. Right. Okay. This has a lot of
19 carrier route mail actually. It has sacks with
20 carrier route mail and five digit mail that is being
21 entered far from the origin.

22 Q Far from the origin?

23 A Yes. In other words, it's being entered --
24 I'm sorry. Far from the destination. It's being
25 entered at the origin.

1 You have very finely sorted bundles that in
2 fact would undergo a lot of sorting on their way to
3 their final destination.

4 Q And what is the circulation rounded to the
5 nearest thousand?

6 A Rounded to the nearest thousand? That would
7 be 2,000

8 Q Two thousand? Is that what you said?

9 A That would be 2,000.

10 Q Okay. So this would be very small. Well, I
11 think you listed very small under --

12 A It's a weekly.

13 MR. STRAUS: I have no further questions.
14 Thank you.

15 THE WITNESS: Okay.

16 CHAIRMAN OMAS: Thank you, Mr. Straus.
17 Mr. Bergin?

18 CROSS-EXAMINATION

19 BY MR. BERGIN:

20 Q Good morning, Mr. Stralberg.

21 A Good morning.

22 Q For the record, I'm Tim Bergin on behalf of
23 The McGraw-Hill Companies today.

24 In response to Mr. Straus' questions you
25 mentioned some recently filed responses by the Postal

1 Service to Time Warner interrogatories.

2 A Yes. Let me see if I can find them.

3 Q Okay.

4 A Do you mean the ones that were just filed on
5 Monday?

6 Q I believe on Monday.

7 A Yes.

8 Q Time Warner/USPS-7-8.

9 A Yes.

10 Q And you were involved in preparing those
11 interrogatories?

12 A Yes, I was involved in that. Yes.

13 Q Can I refer you to Interrogatory No. 7 that
14 Time Warner posed to the Postal Service in this
15 regard?

16 A Okay.

17 Q In the response to subpart (a) there's a
18 reference to Postalone! EVS System.

19 A Are you asking me to explain what that is?

20 Q Yes, please.

21 A Actually I think you should ask the Postal
22 Service what that is. I believe they have filed
23 testimony explaining what that is much better than I
24 can.

25 Basically as I understand it it's a

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1 computerized system where they receive for most large
2 and medium sized publications mostly mail.dat files
3 and other information.

4 Exactly all the things that they are able to
5 do with the Postalone! EVS System I don't know, but
6 they were able to select some publications and produce
7 data, current data, on those publications pretty fast
8 whereas it took them a little longer to collect data
9 on the smaller publications because they actually had
10 to go out and collect it.

11 Q So if I understand correctly, this system
12 encompasses large and medium publications by and
13 large.

14 A That is my understanding. Again, I'm in no
15 way an expert on the postal one media system.

16 Q Now, in Interrogatory No. 7, subpart (a),
17 Time-Warner asked the Postal Service to confirm that
18 of 158 publications for which data was extracted from
19 that database 27 were considered nonmachinable?

20 A Yes.

21 Q The Postal Service responded that in
22 actuality 47 were nonmachinable?

23 A Well, what they're saying 47 of the 158
24 sampled publications from the postal one media system
25 had volume determined not to be AFSM 100 compatible.

1 That doesn't necessarily mean that all of the pieces
2 in all of the publications were nonmachinable.
3 Precisely what it means is that some of the pieces in
4 47 of them were classified as machinable. In other
5 words we did not make that distinction in the
6 question. We just said that 27 are considered
7 nonmachinable and they are specifying that there are
8 some that have some nonmachinable volume.

9 Q Would your answer be the same with regard to
10 Interrogatory No. 7, subpart (b), which refers to a
11 different data set? You asked the Postal Service to
12 confirm whether No. 7 were considered nonmachinable
13 and the response was that 22 contained nonmachinable
14 volume.

15 A I'm only trying to interpret the Postal
16 Service's answer, okay, but are you talking about (b)
17 or (c) and (d)?

18 Q Subpart (b) at this point.

19 A Okay. Well, that's what they say. Twenty-
20 two of the 101 publications contain nonmachinable
21 volume.

22 Q Can you explain to me why it is that Time-
23 Warner thought that only seven of those publications
24 would be considered nonmachinable and the response you
25 got was that 22 contain nonmachinable volume?

1 A Well, I would have to draw your attention to
2 the word revised ~~in~~ their answer to part (a). They
3 came up with a revised data set that was not identical
4 to the original. Our question was about what they had
5 initially filed and their answer refers to what they
6 eventually filed which was quite a bit different.

7 Q Fair enough. With regard to Interrogatory
8 No. 7, subpart (b), it refers to a separate survey.
9 Do you have an understanding of what sort of
10 publications that survey encompassed?

11 A Part (b)?

12 Q Yes.

13 A Well, I understand it was a survey of
14 publications. If this information is not entered in
15 the postal one system.

16 Q Would they be large publications or very
17 small publications?

18 A They are small. The maximum issue size is
19 14,000.

20 Q So they would include very small
21 publications as well as small --

22 A Yes. It's from 14,000 down. All of the
23 really small ones are covered in the part (b). In
24 other words they didn't have them in their data
25 system.

1 Q What do you mean by part (b)? You said all
2 of the really small ones are covered --

3 A The spreadsheet that I have provided has two
4 worksheets, okay? One contains 158 publications that
5 are from the postal one system and that is as I
6 understand it information that they were able to
7 extract electronically without having to go anyplace
8 to collect it or even make a phone call.

9 Part (b), the second part of the
10 spreadsheets, which of course is under protective
11 conditions, contains data on 110, I believe it's 110
12 .. I'm sorry, 101 publications that are small ranging
13 in size from 14,162 per issue to 10 pieces per issue.

14 Q So when you refer to part (b) you were
15 referring to part (b) of the spreadsheet or were you
16 referring to part (b) of the interrogatory?

17 A The spreadsheet pages are named something
18 else. I was referring to part (b) of the
19 interrogatory which refers to the second page of the
20 spreadsheet that I provided.

21 Q With regard to your response to Presiding
22 Officers' Information Request No. 9 --

23 A No. 9?

24 Q No. 19. Excuse me.

25 A No. 19. Okay.

1 Q If you would turn to page 4, please?

2 A Okay.

3 Q Footnote 10 at the bottom of the page.

4 Still clarifying question, You refer there to Table
5 11 in Witness Loetscher's response to Time-Warner/EPS-
6 T-28-11?

7 A Right. Yes.

8 Q Could that be Table 15 or maybe it's a
9 question you are not able to answer readily now?

10 A Actually, I would have to check, but I think
11 you actually found a typo in my answer. I think it is
12 Table 15.

13 Q Caused me a little bit of confusion last
14 night I can assure you.

15 A Okay. Sorry. I think it should be Table
16 15. I will double check that later, but I'm pretty
17 sure I should have said 15 there.

18 Q In Table 15 then, assuming that's the
19 correct one, of this interrogatory response of Witness
20 Loetscher referred to just a moment ago can you tell
21 me how many **very** small publications were surveyed?

22 A The nature of the information that Mr.
23 Loetscher provided does not make it possible to
24 ascertain how many publications he had surveyed. He
25 only provides aggregated data.

1 Q On page 4 of your respcense to Presiding
2 Officers' Information Request No. 19 in the final
3 paragraph you refer to the more comprehensive survey
4 provided by Witness Loetscher.

5 A Uh-huh.

6 Q From which you suggest that only six or
7 seven percent of publications with circulation under
8 1,000 are nonmachinable?

9 A That is what I calculated based on his data.
10 Yes.

11 Q How did you make that calculation if you
12 can't tell me how many very small publications are
13 included within his data?

14 A Well, you would understand if you looked at
15 his table, okay? His table provides number of pieces
16 of various characteristics at various levels of size
17 for the publications. In other words he estimated it.
18 It's his estimates, it's not mine. So I just
19 summarized his data and I came to that conclusion.

20 You might have asked Mr. Loetscher how he
21 was able to -- he might be able to tell you how many
22 publications he sampled and how he calculated it. I'm
23 using his answers.

24 Q You state again on page 4 that Witness
25 Loetscher performed a more comprehensive survey. You

1 see that language?

2 A Yes.

3 Q I mean, if you don't know how many
4 publications he surveyed how can you be certain it's a
5 more comprehensive survey?

6 A Well, let's look at it this way, okay? The
7 Library Reference No. 91 was the main data set that
8 the Postal Service collected to support their
9 periodicals proposal in this case. They had
10 considerable time to do it. It was supposedly a
11 scientifically well-designed sample that he used and
12 his testimony documents how he did it, okay?

13 They had a whole year to do it. As I
14 understand it the mail.dat information they collected
15 wasn't just for a single publication. but over an
16 extended period. Some of what I say in here is in
17 fact confirmed by the Postal Service's answer to this
18 recent Interrogatory No. 7, parts (c) and (d).

19 We asked them if they applied the same
20 criteria of machinability here as they used in the LR-
21 91. Their answer is yes, but -- okay. Let me read
22 this. This is on page 2 of the Postal Service's
23 answer. In LR-L-91 for publications with annual
24 circulation less than 15,000 pieces BMEU clerks were
25 asked to determine if the piece met AFSM 100

1 machinability standards and provide actual
2 measurements of length, height and thickness of the
3 publication.

4 Then they go on to describe all the other
5 checks they made to make sure that this really was
6 correct. In order to come up with this data that they
7 provided now they couldn't do that. They had to get
8 some data in a hurry and they just called people and
9 asked them what they remembered about such and such
10 publication.

11 So in other words the rigor with which they
12 collected the LR-91 data seems to have been quite a
13 bit larger.

14 Q In the portion of the interrogatory response
15 that you just read it refers to publications with
16 annual circulation less than 15,000 pieces.

17 A Right. Uh-huh.

18 Q That would be a small publication under
19 Witness Loetscher's definition, correct?

20 A Well, he used several size criteria. I
21 think 15,000 was one of the borders. He also had an
22 under 5,000 category and a 5,000 to 15,000 category.
23 Then we asked for data specifically for the
24 publications under 1,000 circulation.

25 Q But that's not data that he had surveyed

1 specifically. You simply asked him to break that out
2 of --

3 A His original size category was zero to
4 5,000. Because in the complaint case Witness Tang had
5 provided data specifically for publications under
6 1,000, so we asked him to break that out which he did
7 and that is that Table 15, I believe it should be 15,
8 that you asked about.

9 Q But again, he didn't set out as you
10 understand it to survey very small publications
11 defined as having mailed circulation of less than
12 1,000?

13 A He set out to survey publications of all
14 sizes from very small to very large. Then he divided
15 them into strata for the purpose of aggregating. Now.
16 we asked him to break up his smallest strata which was
17 zero to 5,000 and to break it up into publications
18 under 1,000 and those from 1,000 to 5,000.

19 Q In that manner is there less certainty
20 whether you have a fair statistical sample of
21 publications of less than 1,000 mailed circulation?

22 A I can't really tell you that because I don't
23 know what he did exactly, okay? Most of the
24 publications, most of periodicals period have
25 circulation under 1,000, and so if he sampled on a

1 random basis publications with circulation under 5,000
2 then I believe about three-fourths of them would end
3 up being publications with circulation under 1,000.

4 Q If you could turn, please, to page 10 of
5 your response to Presiding Officers' Information
6 Request No. 19?

7 A Okay.

8 Q I'd like to refer you to what appears to be
9 one stratum in this analysis of publications, that is
10 Publication Nos. 194 through 210.

11 A Yes.

12 Q Which I believe represents very small
13 publications, that is defined as less than 1,000
14 annual mailed circulation?

15 A Yes. Yes.

16 Q Or circulation per issue. Also having high-
17 density?

18 A I believe that's how the Postal Service
19 characterized them. Yeah.

20 Q How do you understand the term high-density
21 in this context?

22 A Frankly I forget exactly what the definition
23 of it was. This was a definition that Witness Tang
24 used in the complaint case. It has to do with the
25 density, okay? How much is entered in one place or

1 how much goes to one place. I don't remember the
2 exact definition of it. I did not make a distinction
3 here between high-density and low-density because I
4 couldn't really see that it made any difference.

5 Q High-density, wouldn't it indicate higher
6 presortation for example?

7 A It could.

8 Q Now, for this stratum that is very small and
9 high-density it appears to me that only six of the 17
10 publications would have a lower rate under the Time-
11 Warner proposal than under the Postal Service
12 proposal?

13 A I haven't done any analysis in that
14 particular stratum, but you may be right. I also
15 notice there's a high incidence of nonmachinability in
16 that particular stratum the way they have been
17 sampled.

18 Q If you look at Publication No. 194 that is a
19 machinable publication, correct?

20 A Yes.

21 Q The rate increase under the Time-Warner
22 proposal would be 31.27 percent?

23 A Yes.

24 Q Do you have an understanding of why such a
25 high rate increase for that publication

1 notwithstanding that it's machinable?

2 A Well, as I told Mr. Straus also, okay, I can
3 try and look at the characteristics of that
4 publication and maybe give you an answer, okay,
5 because it won't always be the same answer. There are
6 many different characteristics of these publications,
7 so I'll try and find that.

8 Q Well, I'll accept --

9 A You will accept?

10 Q -- your general answer.

11 A I see here I have actually made a notice
12 that No. 194, that it has also sacks that were entered
13 at origin and I believe, although I haven't checked it
14 in that case, sacks that were entered that would
15 travel through several facilities and had bundles that
16 would go through a lot of sorting, so that's generally
17 the characteristic of that publication.

18 As to why that's a particularly large
19 increase I don't know.

20 Q In this stratum of '17 publications that is
21 very small high-density I count at least three other
22 publications that are machinable, but have a rate
23 increase of over 25 percent of the Time-Warner
24 proposal. For example No. 201, No. 197.

25 A Well, I can tell you the same thing. I can

1 either try and analyze each one of them for you which
2 might take me a little time or I can just give you the
3 general answer that I don't know before I have looked
4 at the specific characteristics.

5 Q Well, I thought your general answer was that
6 there can be a variety of factors at play --

7 A That is my general answer. Yes.

8 Q -- even apart from machinability or
9 nonmachinability?

10 A Yes. Yes.

11 MR. KEEGAN: Mr. Chairman, Time-Yarner would
12 be happy to provide a written response if Mr. Bergin
13 would accept that.

14 CHAIRMAN OMAS: Mr. Bergin?

15 MR. BERGIN: Certainly.

16 CHAIRMAN OMAS: Thank you, Mr. Keegan.

17 THE WITNESS: Well, then you'd have to tell
18 me what your question is.

19 MR. BERGIN: Mr. Keegan, what was the
20 written response you were offering?

21 MR. KEEGAN: I think the question was why do
22 those publications in the stratum that you were
23 questioning Mr. Stralberg about that are machinable
24 and have increases of over 25 percent have **such** large
25 increases and in particular why do the two

1 publications that are nonmachinable have very large
2 increases. I'm sorry. I should have stopped when I
3 was ahead.

4 MR. BERGIN: Yes. No. I would agree. Very
5 good.

6 BY MR. BERGIN:

7 Q Mr. Stralberg, I will probably be referring
8 to a number of publications with what might appear to
9 be anomalous rate impacts and if you'd care to respond
10 in writing and comment on them after an opportunity to
11 review them more closely I would be happy to have your
12 response.

13 A Okay. Give me a list. I didn't even write
14 down the ones you just mentioned, okay?

15 Q I mentioned --

16 A You mentioned No. 194.

17 Q -- Nos. 194, 201, 197 and 209. Those are
18 examples of machinable publications in this particular
19 very small publication stratum that have rate
20 increases under the Time-Warner proposal in excess of
21 25 percent or higher.

22 A Okay.

23 Q If you look at Publication No. 205 in this
24 stratum I think this is the highest increase under the
25 Time-Warner proposal of 59.08 percent.

1 A Uh-huh.

2 Q **I'd** be curious as to the characteristics of
3 that publication. In point of fact for nonmachinable
4 publications in this stratum which includes only 17
5 publications, again very small high-density, there is
6 an array of seemingly very large rate increases in the
7 Time-Warner proposal.

8 I just mentioned Publication No. 205 at
9 59.08 percent, there's Publication No. 196 at 45.1
10 percent, Publication No. 204 at 42.8 percent,
11 Publication No. 199 at 40.14 percent, Publication No.
12 210 at 38.73 percent, Publication No. 208 at 37.21
13 percent, Publication No. 202 at I believe it's 32.8
14 percent and Publication No. 207 at 31.71 percent.

15 A Is it all the ones that have a large
16 increase you want?

17 Q Just in this stratum.

18 A Okay.

19 Q As Mr. Straus is trying to explore, discern
20 better what characteristics drive those increases,
21 that would be helpful. Then on the other hand within
22 this same stratum although only six of 17 publications
23 have lower percentage increases under the Time-Warner
24 proposal than under the Postal Service proposal some
25 of those publications would have very low increases.

1 For example Publication No. 198.

2 A No. 198. Yes.

3 Q Apparently we'd have no increase at all, but
4 rather a 7.63 percent decrease in postage under the
5 Time-Warner proposal. There are two other
6 publications. No. 200 apparently is 0.24 percent
7 increase, Publication No. 195 a 2.62 percent increase.
8 Very wide swings obviously between a 59 percent
9 increase and a seven percent decrease. I would be
10 interested in what drives those swings.

11 A Well, like I said machinability is one
12 issue, barcoding is another issue. We're like
13 proposing to reward barcoding less than it's currently
14 being rewarded, okay? There are other factors
15 involved obviously.

16 One thing I should mention is that although
17 presumably this data was collected after the 24 piece
18 per sack requirement was implemented I'm not convinced
19 that it had been totally implemented in all the
20 publications. In fact for a few of them it definitely
21 was not. I think we have one example. That's the
22 second to last one I think, Publication No. 258.

23 Q I'll be coming to that.

24 A Is that right? Yes. This is a publication
25 where they sampled 17 pieces, okay?

1 Q Well, I think you're in a different stratum
2 now.

3 A I'm in a different stratum. Yeah. These
4 are the really small publications.

5 Q We'll come to this stratum in just a moment.

6 A You're not even talking about this yet. I'm
7 sorry.

8 Q You're jumping ahead of me.

9 A I see. I thought we were talking about
10 everything. Okay.

11 Q I would like to refer you to page 4 of your
12 testimony and then we'll come back to the publications
13 you were just referring to. I'm reading in the text
14 just below the chart. You state it appears that very
15 small publications (circulation below 1,000) that are
16 machinable would fair considerably better under Time-
17 Warner's rates than under those proposed by Witness
18 Tang.

19 My question to you is that doesn't appear to
20 be true with regard to the stratum we just looked at
21 for very small high definition publications.

22 A It so happened there are a number of
23 nonmachinable publications that are concentrated in
24 that area. If you look at my table on what is at top
25 of that page and the last part of that table which

1 refers to all of the very small publications all the
2 ones that are nonmachinable basically would pay more
3 than under the Postal Service's proposal.

4 Among the rest that are the 30 that are
5 shown here as machinable 26 would pay less under Time-
6 Warner's proposal.

7 Q Well, I'm focusing on this particular
8 stratum and I gave you several publications that are
9 machinable and would have increases above 25 percent.

10 A Yeah. There are four of them in total, so
11 they must have been all here then. Okay.

12 MR. KEEGAN: Mr. Bergin, may I expedite
13 things for me to say that we would be happy to provide
14 a written response with respect to all of the
15 publications in that stratum that you mentioned with
16 respect to the issues that you've raised.

17 CHAIRMAN OMAS: I agree. I think a lot of
18 this should have been done through interrogatories, so
19 you can accept their offer to give this to you in
20 writing.

21 MR. BERGIN: Excuse me, Mr. Chairman?

22 CHAIRMAN OMAS: I said it seems as though a
23 lot of these questions should have been done through
24 interrogatories, but they're offering to do them in
25 writing, so you might want to accept that.

1 MR. BERGIN: That's certainly fine. I would
2 note that this very important response to Presiding
3 Officers' Information Request No. 19 was only filed
4 very recently late last week, so we had no opportunity
5 to pose interrogatories, but certainly I agree with
6 you that written responses would be helpful.

7 CHAIRMAN O W : Thank you.

8 BY MR. BERGIN:

9 Q If you look at the next stratum which is for
10 very small publications but with low-density this
11 time? I believe that's Publication Nos. 235 through
12 259 of your table.

13 A Okay.

14 Q Publication No. 258 I think you mentioned a
15 moment ago is a machinable publication?

16 A Yes.

17 Q Yet under Time-Warner's proposal it would
18 have a rate increase of 46.76 percent?

19 A I can answer that one.

20 Q All right. That would be fine.

21 A What they sampled was 17 pieces contained in
22 three sacks. Seventeen divided by three is 5.
23 something. So this is not exactly a publication that
24 has more than 24 pieces per sack. It so happens that
25 according to the Postal Service's regulations that

1 specify the 24 piece limit they allow certain
2 exceptions for residual volumes, okay?

3 If you only have so many pieces left after
4 you have done all of the other presortation then you
5 put whatever is left in another sack which may contain
6 less than 24 pieces. As far as I can understand
7 regulations this particular publication which has a
8 circulation size of 20 pieces actually did follow the
9 regulations and they were able to produce three sacks,
10 okay?

11 So maybe there should be an exception for
12 publications with only 20 pieces. That is why this
13 increase is high. By the way it's 43.7 percent under
14 Tang's proposal and we are three percent higher than
15 that, so it's not only under Time-Warner's proposal
16 that this particular publication would receive a high
17 increase.

18 Q Do you know what the increase would be under
19 the MPA proposal?

20 A No. I don't know. I have that table
21 someplace, but I tend to think it probably would be
22 much lower under their proposal. Yeah. It would be
23 13 and a half percent. They have no container charge.

24 Q So in this incidence it's a question of low
25 volume really?

1 A It's a question of really low volume. I
2 didn't know there existed publications with 20 pieces,
3 but apparently there are some. The last one actually
4 has 10 pieces.

5 Q Now, for this stratum which includes 25
6 publications the publications do appear to do fairly
7 well under the Time-Warner proposal at least by
8 comparison with the stratum we looked at before for
9 very small high-density publications since 20 of 25
10 publications in this stratum get a lower increase
11 under the Time-Warner proposal than under the Postal
12 Service proposal.

13 A Yes.

14 Q Can you explain to me. is there some
15 difference between high-density and low-density that
16 would explain the bigger, stronger impact for the one
17 stratum as opposed to the other?

18 A Well, since you're requiring a written
19 response I'll certainly look into that, but right
20 offhand I would say it's not a question of high or
21 low-density, but the fact that the group you referred
22 to earlier had a high incidence of nonmachinability.
23 I believe that's just a random effect.

24 Q Excuse me one second. One thing you might
25 also consider is whether comparing machinable to

1 machinable and nonmachinable to nonmachinable there
2 may be systematically different results between the
3 two strata.

4 A What are you suggesting? I'm not sure if I
5 understood it. You mean that high-density
6 publications are less machinable?

7 Q No. If you compare the very small high-
8 density stratum to the very small low-density stratum
9 you might compare machinable against the machinable in
10 the one stratum against the machinable in the other
11 and the nonmachinable in one against the nonmachinable
12 in the other.

13 A Well, I will look at that, too.

14 Q Thank you. When you talk in terms of a
15 publication with 17 pieces could that be an in county
16 publication or rather the outside county portion of an
17 in county publication?

18 A Well, you would have to ask the Postal
19 Service about that, but it certainly could be.

20 Q Is that something that could be determined
21 from the library reference that's been filed?

22 A No. I don't think so. I should perhaps
23 mention that one way that these publications like the
24 one with 17 pieces could all of a sudden end up with a
25 very low increase under the Time-Warner proposal is

1 that the Postal Service has in fact said for
2 publications with very low volume they will allow them
3 to enter just bundles, put them in a hamper or
4 something at the local post office.

5 That will actually be a very efficient way
6 of doing it. It would save all the cost of handling
7 sack, of emptying it, of recirculating it, and it
8 would save everybody time and it would lead to
9 drastically lower increases. Under this proposal
10 there will be no sack.

11 Q Is it your understanding that the Postal
12 Service would assess a container charge in that
13 instance?

14 A Our proposal certainly does not include that
15 because when someone just brings his bundles and puts
16 it in a hamper that has been placed at the post office
17 then there are a lot of costs that are avoided. There
18 are none that are added by doing that, so it doesn't
19 make sense to have any container charge imposed for
20 that. Time's proposal I don't know. Maybe that's
21 what they mean, but I don't think that will be a good
22 idea.

23 Q Back to my suggestion that a 17 circulation
24 publication might refer to the outside county portion
25 of an in county publication. I can understand how

1 otherwise a very small circulation publication could
2 be high-density if it was just a local church magazine
3 or something, but I have a harder time understanding
4 how it could be low-density, that is disbursed widely
5 at such a low circulation.

6 A Well, that's something they call snowbirds.

7 Q Exactly. Well, I'll look forward to your
8 thoughts on that.

9 CHAIRMAN OMAS: Mr. Bergin, may I ask you
10 about how much longer you have?

11 MR. BERGIN: Perhaps 15 minutes or so.

12 CHAIRMAN OMAS: Okay.

13 MR. BERGIN: Fifteen, 20 minutes. It's hard
14 to say exactly, but not very much.

15 CHAIRMAN OMAS: Well, I have something
16 planned at noon.

17 How much time were you going to be, Mr.
18 Rubin?

19 MR. RUBIN: Probably two or three minutes.

20 CHAIRMAN OMAS: Well, I don't know whether
21 to break for lunch or to come back after. All right.

22 MR. BERGIN: Whatever you'd like to do is
23 fine with me speaking for myself.

24 CHAIRMAN OMAS: Yes. I think we will just
25 go ahead and break. No. Wait. Somebody says we

1 should go ahead and try to finish. All right. Let's
2 go ahead and try to finish.

3 MR. BERGIN: I'll be as brief as I can.

4 CHAIRMAN OMAS: Okay.

5 BY MR. BERGIN:

6 Q Can I refer you, Mr. Stralberg, to another
7 stratum? Publication Nos. 211 through 234, which I
8 believe encompasses small publications as opposed to
9 very small publications that are low-density.

10 A Okay.

11 Q So these would be the publications above
12 5,000?

13 A These would be the publications between
14 1,000 and 15,000.

15 Q Between 1,000 and 15,000?

16 A Yes. I'll double check that actually. It
17 may be in reality some of them are smaller.

18 Q By my count, Mr. Stralberg, only five of the
19 24 publications in this stratum would receive a lower
20 rate increase under the Time-Warner proposal than
21 under the Postal Service proposal. The remaining 19
22 would receive a higher increase. Moreover the ones
23 that receive a lower increase, by and large it's a
24 double digit increase as well.

25 A Well, in fact I see nothing but double

1 increases under the Postal Service's proposal.

2 Q My question is why the Time-Warner proposal
3 would have a worse impact on small publications as
4 compared with very small publications?

5 A Again, it's something that would have to be
6 analyzed further. I have suggested one thing which I
7 think explains some of that which is that the very
8 small publications generally do not place barcodes on
9 their mail pieces. In other words so we're not taking
10 anything away from them, okay?

11 Other publications tend to in many cases
12 claim automation discounts. ~~The~~ Time-Warner proposal
13 places more emphasis on machinability and less on the
14 actual placement of the barcode which I think is more
15 consistent with how flats are actually processed.

16 Q I don't mean to cut you short, but I'll look
17 forward to your written response. Perhaps if I could
18 just pose my questions at this point --

19 A Okay. I was just trying to give you a
20 little bit of an answer. Okay.

21 Q Right. I appreciate that, but in an effort
22 to accommodate everyone's schedules. There's another
23 stratum that includes small publications which have
24 high-density. That's Publication Nos. 153 through
25 193. Forty publications are included.

1 A Okay.

2 Q I think 26 of the 40 have larger increases
3 under the Time-Warner proposal than under the Postal
4 Service proposal, many of them much larger. So in
5 addition to your analysis of particular publications
6 I'm looking for analysis of trends that may affect
7 strata of varying characteristics.

8 With regard to individual publications I
9 note that there are at least five machinable
10 publications in this stratum that have very large
11 increases under the Time-Warner proposal, Publication
12 No. 188 with a 37.29 percent increase --

13 A I believe we talked about that one already.
14 Yeah.

15 Q There's also Publication Nos. 184, 156, 171,
16 173 all above 25 percent even though we're talking
17 about machinable publications. On the nonmachinable
18 side Publication No. 169 has a 36.03 percent increase
19 under the Time-Warner proposal, Publication No. 189
20 has a 32.14 percent increase, Publication No. 181 has
21 a 29 --

22 A I'm no longer taking notes, okay, because
23 I'm not able to --

24 MR. KEEGAN: Mr. Chairman, we can Consult
25 the transcript for the exact details?

1 MR. BERGIN: Sure.

2 CHAIRMAN OMAS: Thank you, Mr. Bergin.

3 BY MR. BERGIN:

4 Q Also Publication No. 173. Then on the
5 nonmachinable side there are high percentage increases
6 under the Time-Warner proposal for Publication No. 169
7 at 38 percent, No. 189 at 32 percent, No. 181 at 29
8 percent, No. 167 at 29 percent. A question for you.
9 It's a little bit different. Publication No. 180 in
10 this stratum is nonmachrnable --

11 A Yes.

12 Q -- though it would have an increase of only
13 2.56 percent under the Time-Warner proposal?

14 A Yes. Worse it's 9.2 percent under the
15 Postal Service's proposal.

16 Q Right, and this is a nonmachinable
17 publication --

18 A Yeah. I did actually look at that one. One
19 thing is that this I believe is a very heavy
20 publication.

21 Q Excuse me?

22 A It's a pretty heavy publication. It's
23 nonmachinable because it's heavy. It's over one and a
24 quarter pound. Generally for a heavier publication
25 what happens the piece charges makes less impact

1 because it's the pound rates that dominate in that
2 case. Also it's mostly five digit presort which means
3 the machinability is not really that important. Not
4 as important as if they were like three digit or ADC
5 presort.

6 Q Just to follow-up briefly on that can you
7 look at Publication No. 4?

8 A Yes.

9 Q Nonmachinable increase under the Time-Warner
10 proposal of 7.49 percent -- or 5.24 percent?

11 A 5.24. Yeah. It would have a 7.49 percent
12 increase under the Postal Service's proposal. This
13 publication is mostly carrier presorted which means
14 that nonmachinability really is not an issue. There
15 may be other characteristics of it also that account
16 for the very low increase, but certainly
17 nonmachinability is not really relevant for carrier
18 route publications.

19 Q There are three other strata in your
20 response to this information request that we haven't
21 discussed.

22 A I was afraid of that.

23 Q I'll discuss them only briefly.

24 A **Yeah.** Okay. You want me to look at all of
25 them, right?

1 Q One encompasses Publication Nos. 103 through
2 152.

3 A No. 103?

4 Q I believe so.

5 A Okay.

6 Q These are middle sized publications which I
7 believe exceeds 15,000 in mailed circulation, but they
8 are low-density.

9 In 80 percent of the cases I believe the
10 rate increase under the Time-Warner proposal is higher
11 than under the Postal Service proposal and in
12 particular I would refer you to Publication No. 121
13 which would involve a 46.49 percent increase,
14 Publication No. 110 involves a 40.15 percent increase,
15 Publication No. 120 involves a 39.93 percent increase,
16 Publication No. 152 involves a 39.58 percent increase,
17 Publication No. 123 35.94 percent and also Publication
18 Nos. 119, 110 and 114.

19 The second to last strata involves middle
20 size publications that are high-density. This
21 includes Publication Nos. 53 through 102. Fifty
22 publications, for most of them the rate increase under
23 the Time-Warner proposal is higher than under the
24 Postal Service proposal and again in many cases
25 considerably higher.

1 I would refer you in particular to
2 Publication No. 63 which would have a 47.32 percent
3 increase under the Time-Warner proposal, Publication
4 No. 92 which would have a 31.17 percent increase,
5 Publication No. 102 which would have a 30.7 percent
6 increase and I'd also refer you to Publication Nos.
7 65, 75, 79, 101, 84.

8 The final stratum is the large publicat-ens
9 which includes Publication Nos. 1 through 52. These
10 publications appear to do well under the Time-Warner
11 proposal as compared with the Postal Service proposal.
12 If you could factor that into your analysis of how and
13 why the strata have varying impacts I would appreciate
14 that.

15 A Yeah. The large proposals actually
16 according to my table appear to be evenly split
17 between those who do better and those who do worse
18 under the Time-Warner proposal.

19 Q By my count that may be the case.

20 A It's pretty evenly split.

21 MR. BERGIN: Although I guess 25 of 52
22 publications would have a smaller increase under the
23 Time-Warner proposal than under the Postal Service
24 proposal, but my point was that 22 of those would
25 involve a single digit and eight of those would

1 involve less than five percent ranging down to 1.25
2 percent.

3 I believe that will conclude my questioning
4 at this time. Thank you.

5 CHAIRMAN OMAS: Thank you, Mr. Bergin.
6 Mr. Rubin?

7 MR. RUBIN: Hello. I'm David Rubin for the
8 Postal Service.

9 CROSS-EXAMINATION

10 BY MR. RUBIN:

11 Q Mr. Stralberg, would you turn to your
12 response to Postal Service Interrogatory No. T-2-187

13 A Okay.

14 Q In the third sentence --

15 A Give me a minute, okay? No. T-2-18? Okay.

16 Q In the third sentence you state that since
17 May this year the Postal Service no longer allows skin
18 sacks, but I believe earlier in talking with counsel
19 for McGraw-Hill you stated that there are some
20 exceptions to that rule?

21 A I stated that. As I understand it those all
22 deal with residual volumes to allow you to place the
23 volume that you can't place somewhere else. They are
24 sensible rules in that sense because all the pieces
25 have to go someplace. So yeah, I did indicate that.

1 Q Do you agree that the billing determinant
2 that you developed assumed that there would be no skin
3 sacks?

4 A They did in fact and I think that's actually
5 pretty close because those residual sacks will be a
6 pretty small volume, but it's true there will be a
7 few.

8 MR. RUBIN: Thank you. That's all I have.

9 CHAIRMAN OMAS: Thank you, Mr. Rubin.

10 Is there anyone else who wishes to cross-
11 examine this witness?

12 (No response.)

13 CHAIRMAN OMAS: There are no questions from
14 the bench.

15 Mr. Keegan, would you like some time with
16 your witness?

17 MR. KEEGAN: Yes, Mr. Chairman. Five
18 minutes.

19 CHAIRMAN OMAS: Very good. Thank you.

20 MR. KEEGAN: Mr. Chairman, I'm happy to say
21 that Time-Warner has no redirect. However, there is
22 one procedural question I would like to raise. We did
23 promise written responses to Mr. Bergin, but we did
24 not establish a time schedule for that. I would ask
25 that we be given two weeks given the complexity of the

1 answers.

2 CHAIRMAN OMAS: You think you can do it in
3 less than two weeks?

4 MR. KEEGAN: I cannot say that I do, Mr.
5 Chairman.

6 CHAIRMAN OMAS: Okay. You don't think you
7 can do it in 10 days?

8 MR. KEEGAN: Well, I think you better ask
9 the witness that.

10 THE WITNESS: I'll do my best.

11 CHAIRMAN OMAS: All right. Thank you very
12 much. That's all we can ask. Okay.

13 Mr. Stralberg, that concludes your testimony
14 here today. We appreciate your appearance, and thank
15 you for your contribution to our record. You are now
16 excused.

17 (Witness excused.)

18 CHAIRMAN OMAS: This concludes hearings to
19 receive the direct case of participants other than the
20 Postal Service. We're now adjourned. Have a good
21 afternoon.

22 (Whereupon, at 12:20 p.m., the hearing in
23 the above-entitled matter adjourned, to reconvene sine
24 die.)

25 //

10672

REPORTER'S CERTIFICATE

DOCKET NO.: *22M-1*
CASE TITLE: *Postal Rate and Fee Changes*
HEARING DATE: *11/8/00*
LOCATION: *WDC*

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the *Postal Rate Commission*

Date: *11/12/00*

Diana J. Miller

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